

# ANNUAL REPORT 2018







# Annual Report 2018

Police Bank is a secure, modern, Member-owned Bank servicing the wider Police, Home Affairs and Tasmanian communities. Police Bank offers a wide range of products and services with a discounted fee structure for every stage of life.

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# Highlights and achievements from another great year

**25 August 2017**

## Police Bank Staff celebrate 'Wear it Purple' Day, raising over \$2,000

Police Bank Staff from Port Macquarie to Goulburn celebrated Wear it Purple Day to foster supportive, safe and accepting environments for rainbow young people. The Police Bank team put on purple and rainbow morning teas and the sausages sizzled on the barbecue, raising over \$2000.

**3 October 2017**

## New Narellan Branch

Our Campbelltown Branch closed its doors on Friday 29 September to make way for our fantastic new Branch at Shop 311A, Narellan Town Centre, 326 Camden Valley Way, Narellan.

**6 October 2017**

## Updated mobile app to version 3.1

Our latest app improvements made the app easier to use and more functional to helping Members do more banking on Apple and Android devices than ever before.

**10 November 2017**

## Police Bank welcomed government support for Mutual reform

Tony Taylor, Police Bank CEO welcomed the Australian Government's support of all eleven recommendations of the inquiry into Reforms for Cooperatives, Mutuals and Member-owned Firms, conducted by Greg Hammond OAM. Implementing the recommendations will further enhance the competitiveness of the Mutual Banks and Credit Unions who already offer excellent value to Australian consumers.

**23 November 2017**

## Police Bank Annual General Meeting

Police Bank Members descended on the Sydney Masonic Centre to hear our Chair, David Walton, and CEO, Tony Taylor, outline their vision for the year ahead. Current Directors Raff Del Vecchio and Robert Redfern were each returned for another term as Directors, and we welcomed David Hudson as a new Board member following his election. Changes to the Bank's constitution were also approved.

**27 November 2017**

## Better, easier internet and mobile banking authentication

We implemented Invisible reCAPTCHA to provide state-of-the-art spam and abuse protection, which provides a better online experience by making logging in easier for legitimate users.

**31 December 2017**

## Won six Mozo Experts Choice Awards

We ended 2017 with six awards across four of our products in the Mozo Experts Choice Awards.

**13 February 2018**

## New Payments Platform goes live

We went live with the New Payments Platform which allows near real-time payments to other banks that participate in the platform.

**1 May 2018**

## Bank of Heritage Isle merger

We completed the transfer of Heritage Isle Credit Union (HICU) into Police Bank, creating the Bank

of Heritage Isle brand, and a combined organisation of more than 73,000 Members and over \$1.9bn in assets. Mrs Liz Swain, Heritage Isle's former Chair, joined the Board of Police Bank, with all the other Directors of (HICU) appointed to the Bank's Heritage Isle Advisory Committee.

**15 May 2018**

### Police Bank Annual Charity Golf Day

At our annual charity golf day at Moore Park Golf Course keen golfers came together for a day of fun and friendly competition, with \$10,000 being donated to NSW Police Legacy & AFP Legacy respectively.

**8 June 2018**

### Updated mobile app to version 3.3

We responded to feedback and launched our updated app for both iOS and Android devices. The updated app lets you:

- » Schedule and manage future payments and recurring payments
- » Send money using either standard payments or Osko Fast Payment
- » View any PayIDs that Members have currently set up with Police Bank.



# Our work



# Constantly striving to serve you better

Everything we do at Police Bank is informed by our corporate values. We use these values to guide our decision-making to ensure that we remain focused on the needs of our Members.

These values also guide our vision to be the 'Trusted Bank of Choice' for Police and Department of Home Affairs families, as well as Tasmanian residents.

## Our values

### Integrity

We do the right thing each and every time.

### Simplicity

We aim to continually simplify and improve products, processes and services.

### Accountability

We take ownership by delivering on what we commit to and always doing our best.

### Member-focused

Our Members are at the heart of everything we do.

### One team

We personally commit to the success and wellbeing of our colleagues.

## Our history

Our history also informs our decision making. As an organisation formed with the express purpose of benefiting Members, this focus has seen us grow into one of the largest and most successful mutual organisations in Australia. We have grown thanks to the loyalty and support of our Members, but we like to think that we have earned that loyalty and support by providing excellent service and products.

## Merger

As we have grown, we have seen opportunities to serve new groups of Members whose needs may be different from our Police membership. On May 1 2018 the transfer of Heritage Isle Credit Union (HICU) into the Police Bank business took effect and we introduced a new trading name for our Tasmania operations – Bank of Heritage Isle.

### Bank of Heritage Isle

In Heritage Isle Credit Union we recognised an organisation that shared our values in a very different context. Heritage Isle Credit Union existed to support Members around Launceston and throughout Tasmania, in all occupations.

Despite the mismatch between the characteristics that define our membership, Heritage Isle Credit Union and Police Bank were well-matched in commitment to our Members, and in our values and drive to provide the best banking services we can to our membership.

Recognising our similarities in approach, we merged with the Heritage Isle Credit Union to create the Bank of Heritage Isle within Police Bank.

In terms of our values, we will remain *Member-focused* at the customer facing end of our three banks, while being *one team* behind the scenes, to bring you the best service and products.

## Improvements to our service

### Login improvements

In the spirit of simplicity, we implemented Invisible reCAPTCHA on our online banking site. This was done to ease the annoyance that some Members felt with the reCAPTCHA system of preventing robots from gaining access. The great news is that Invisible reCAPTCHA lives up to its name

and is generally invisible to legitimate users. The platform detects human behaviour and allows you to login effortlessly without having to decipher hard to read text from scrambled images.

## Banking app improvements

The way people use banks is changing across the world, and we see those changes reflected among our Members, too. Banking users are demanding more functionality on their phones and online, including when opening new accounts and managing their credit cards. For banks, this shift away from the branch, even for quite complicated transactions, is a big change, and we are meeting it head-on with improvements to our online banking experience.

Through the year we implemented enhancements to our mobile apps, initially adding a great deal of new functionality and clearer presentation of information on screen, as well as support for Google Pay and Samsung Pay.

The performance of the payment functions in version 3.3 was also improved, particularly around scheduling payments and payment choices. We will continue to improve our app to better service our Members digitally.

## Changes to the way our Members use the Branch network

The flipside of greater functionality on mobile applications and online is that banking customers use branches differently. Research across Australasia shows that as users transfer their banking activity onto their mobile devices

and websites, they increasingly see the branch as a place to come for information, advice and complicated transactions like loans. We will be watching for changes in the way Members want to use our Branches so that we can always be ready to accommodate them.

## Narellan Branch

In October, we closed our Campbelltown Branch for the last time and after a busy weekend of moving, we opened our new Narellan Branch on Tuesday 3 October. The new Branch is a much-needed improvement on our Campbelltown Branch and will improve our service to our Members in the Macarthur region.

## Common reporting standards

We demonstrated our commitment to our values of *integrity* and *accountability* by adopting the OECD common reporting standards.

## Mutual reform

We worked hard through the Business Council of Cooperatives and Mutuals and the Customer Owned Banking Association to support Greg Hammond OAM's inquiry into reforms to Cooperatives, Mutuals and Member-Owned firms. We were pleased when the Turnbull Government announced that it would support all eleven recommendations of the inquiry as they will further enhance the competitiveness of banks like Police Bank and credit unions in the Australian banking and finance landscape.

**“Banking users are demanding more functionality on their phones and online, including when opening new accounts and managing their credit cards.”**





3 OCT '17

NEW NARELLAN  
BRANCH OPENED



# What you can expect in the coming year and beyond

Our focus over the past year has been launching the New Payments Platform (NPP) and merging with Heritage Isle Credit Union to create the Bank of Heritage Isle.

Looking forward into the new financial year, our plans are to complete integration with Heritage Isle, strengthen our position with the newly formed Department of Home Affairs by launching Border Bank, achieve efficiencies by sharing IT resources across the organisation, and to continue to invest in and roll-out improvements to our banking app.

### Launching Border Bank

In mid-2017 we commenced a strategic review of the Customs Bank proposition that coincided with the Federal Government announcing the formation of a new Department of Home Affairs. Following recommendations from Management, the Board approved the following significant investments for FY19:

1. To replace the Customs Bank brand with Border Bank. This name is seen as modern and more relevant to the newly formed Home Affairs department, and
2. To establish a new channel to support Border Bank which involved the formation of a new mobile channel with a team of Mobile Lenders in Sydney, Melbourne and Canberra.

### Mobile and online banking improvements

Mobile banking is becoming an increasing part of our Members' lives, and it is important that we

keep pace with this change. Together with our payments solutions partner, Cuscal, we will be further developing our online and mobile banking functions to support new payment types and more sophisticated ways for Members to use our app. Over FY 18, we rolled out improvements to payments and credit card controls.

### Virtual cards

We will be continuing our commitment to improving our Members' banking experience by looking to implement virtual credit cards. These are credit cards specifically designed for use with Samsung Pay, Apple Pay, Google Pay, and even smart watches with FitBit Pay. With virtual cards comes instant card issuance – you never receive a plastic card in the post. All you need to do is set up your account online and put the details into your preferred pay app. There is nothing to stop you setting up your card in your pay app immediately.

### Risk management

Reducing risk is an ongoing responsibility in a bank. Risk presents itself as counterparty risk and investment risk.

### Counterparty risk

We manage our counterparty risk by performing due diligence on the businesses we partner with. We do this to reduce the risk of a counterparty folding and costing us money, or engaging in behaviour that is outside the ethos of Police Bank and its Members.

**“All you need to do is set up your account online and put the details into your preferred pay app. There is nothing to stop you setting up your card in your pay app immediately.”**



### Investment risk

We manage our investment risk by choosing our investments carefully, based on sound fundamental analysis and professional advice. We also minimise our investment in anything other than Member lending to ensure that as much money from the Bank flows back to Members as possible.

### Continued support for our communities

We intend to continue our support for the community by providing lending to our Members and supporting causes that are close to our Members' hearts: Police Citizens Youth Clubs, NSW Police Legacy, Australian Federal Police Legacy, the Police Association NSW, the Australian Federal Police Association and the NSW Retired Police Association.

# Bringing you a richer banking experience

**“The staff could not have helped me any more - they were wonderful and helpful! They went over any questions I had and were more than happy to take the time to explain.”**

*- Police Bank Member*

This year our technology focus has been on providing seamless, integrated online and mobile systems and expanding functionality across our platforms to meet the needs and wishes of our Members.

### Merging systems between Police Bank and Bank of Heritage Isle

The merger has presented us with the challenge of producing a plan to identify which systems in the two organisations would benefit from being merged and which would benefit from being left separate. Once systems are identified to be merged, the IT team must develop a plan to merge those systems while maintaining the full operational capability of both Banks. So far, this project is in its early stages and is expected to be completed in FY19.

### Member app improvements

We made improvements to our online banking apps this year to provide Members with a richer mobile banking experience and a better banking experience overall.

### A suite of new functions for our mobile banking app

Banking users are demanding more mobile banking functions on their phones and we responded with:

- » An improved user interface and menus
- » A clearer display of account information
- » An easier Member registration process
- » The ability to login and logout from any page
- » Buttons to launch Google Pay, Apple Pay and Samsung Pay wallets, and
- » The removal of Tap & Pay.

### Payment improvements in response to your requests

You asked for further improvements to the mobile payment functions of our mobile app and we responded with:

- » The ability to create, manage and see scheduled payments, including recurring payments
- » A choice of payment methods including standard transfer and Osko Fast Payment
- » The ability to see which PayIDs you already have set up in your Police Bank app.





**WE IMPROVED  
OUR BANKING  
APPS TO PROVIDE  
A RICHER  
MOBILE BANKING  
EXPERIENCE**



## Supporting you in every way we can

Police Bank is only as strong as its Members, and we pride ourselves on providing our Members with the best banking service we can provide.

### New Members

The journey begins with new Members – who we encourage to move all their banking over to Police Bank, to benefit from our excellent products, reduced fees and government guarantees. We provide support for new Members to bring over all their banking arrangements, including:

- » Direct crediting of their salary
- » Savings and investment accounts
- » Direct debits
- » Regular periodic payments
- » Credit cards
- » Loans, which can be refinanced with Police Bank

### Existing Members

Existing Members benefit from Police Bank's range of excellent products, from simple day-to-day transaction accounts to savings accounts, special purpose savings accounts and even kids' accounts.

Loans range from simple personal loans, specific purpose loans like car loans and mortgages, to green loans to support your personal efforts to be more environmentally friendly. Overdrafts are available, and we can arrange salary packaging and leasing.

Investment products include simple term deposits, financial planning and superannuation advice, as well as our EDVEST products for Members who are over 45 years of age.

We have partnered with various insurance companies to bring you insurance for your home and vehicles, including caravans. You can also provide safety

and security for your family with our life insurance policies, and have peace of mind when you travel with our partner's travel insurance policies.

### Awards

The effort we have put into providing you with excellent finance and investment products was recognised during 2017 through our receipt of a number of awards.

We ended 2017 with six awards across four of our products in the Mozo Experts Choice Awards, showing that our loans and Visa credit card are truly serving you well:

- » **Best Low Rate Credit Card** – Police Bank Low Rate Credit Card
- » **Best Balance Transfer Credit Card** – Police Bank Low Rate Credit Card
- » **Best Excellent Credit Personal Loan** – Police Bank Personal Loan
- » **Best Used Car Loan** – Police Bank Car Loan
- » **Best Green Personal Loan** – Police Bank Green Loan
- » **Best Unsecured Personal Loan** – Police Bank Personal Loan





WE ENDED 2017  
WITH SIX AWARDS  
ACROSS FOUR OF  
OUR PRODUCTS IN  
THE MOZO EXPERTS  
CHOICE AWARDS



## Actively supporting our Members and community

At Police Bank, we believe that we have a responsibility to our communities. In addition to helping our Members with their financial goals, we are also driven to support various community-based initiatives for both our Police Bank and Customs Bank families, as well as the Bank of Heritage Isle. It's important for us to create positive change by acting and supporting issues that are close to both our Members and us.

### Support and Awareness

#### We support our Members

As a Bank that operates for the benefit of its Member community, behaving ethically towards our Members is of utmost importance. As our membership grows, it is more important than ever for us to ensure that we operate our business in an ethical way and focus on the needs of our Members.

We show our commitment to ethical banking by:

- » Providing Green Loans for borrowers funding green initiatives such as solar hot water systems, rainwater tanks, green vehicles or energy-saving white goods
- » Actively promoting the use of eStatements to reduce unnecessary paper waste.

Police Students can benefit from a range of student-focused loans, accounts and sponsorship of student events to encourage their future development.

We support our colleagues

Police Bank is committed to having a safe work place for all colleagues. We are an equal opportunity employer, and we take our responsibility to support our colleagues seriously. We offer several initiatives and support programs for our team to ensure that they feel included, and we have robust personnel policies and procedures to ensure that all staff are treated fairly.

#### We support and sponsor diversity

Over the last financial year we have continued to support and participate in numerous events and initiatives, including: Gay and Lesbian Mardi Gras Parade, Wear it Purple Day, and Law Enforcement Torch Run for the Special Olympics. We also supported various charities and events that provide assistance to Police Officers who have a disability or are mentally ill, and their families, including Jeff Garland's Triple Zero Trauma Tour.

Initiatives that we sponsored that recognise and support diversity, include: The 2017 GLLO Conference to improve understanding and policing of LGBTI communities; and youth organisations such as PCYC NSW which work together with the

Police and community to empower young people.

#### We Raise Awareness

We have also run events and campaigns to raise awareness and funds for NSW Police Legacy and AFP Legacy. On May 15 2018 we held our Annual Police Bank Charity Golf Day at Moore Park. We had over 100 players join us on the greens and ended the

**“As a Bank that operates for the benefit of its Member community, behaving ethically towards our Members is of utmost importance.”**





day with a \$10,000 donation to NSW Police Legacy and AFP Legacy.

### We support those in need

We have not only supported organisations and events, but also individuals in our community when they need it most. Over the last 12 months we have donated to Police Officers and their families, including:

- » To a former Senior Constable who was injured in a car crash in Queensland in March 2017.
- » To a Senior Constable whose home had been severely affected by floods in early 2017.
- » To a Border Force Officer who underwent cancer treatment in July 2016 and
- » To an AFP Officer who was injured in New Zealand in May 2017 and a separate amount for his family.

# Structure and Management



# Our Directors

## working on your behalf

Police Bank is owned by its Members, who elect a Board of Directors to provide strategic leadership for the Bank.

### The Board

The Board's role is to set policy and provide strategic direction for the Bank. It is advised by Board Committees and external auditors, and is supported by the Bank's senior management team. The Board provides direction to the CEO of Police Bank, Tony Taylor. The Bank's management team then executes the Board's policies and responds tactically to the Board's strategic lead.

### Board committees

Each Board Committee has a specific role that contributes to the detailed oversight provided by them.

#### Corporate governance

The Corporate Governance Committee ensures that the Board adheres to good corporate governance practice including:

- » Fulfilling its APRA (Australian Prudential Regulation Authority) obligations as defined in APRA Prudential Standards CPS 510 and CPS 520
- » Ensuring all Directors are *fit and proper* people for their roles, are elected or re-elected correctly, serve appropriate terms and receive appropriate remuneration
- » Ensuring adequate dispute resolution framework is in place.

#### Risk

The Risk Committee recommends a risk profile and risk management framework to the Board and oversees how the framework is applied to the business by:

- » Ensuring that the internal controls in the business monitor and manage risks effectively
- » Reviewing processes to ensure that they meet prudential standards, legal requirements, and industry and ethical standards
- » Understanding and driving the risk culture of the Bank.

#### Audit

The Audit Committee ensures that the Board meets its external and internal audit obligations, financial reporting, accounting policies, management and internal controls by:

- » Overseeing internal and external audits and appraising their quality
- » Reviewing financial information before it is presented to Members and regulators
- » Approving the internal audit charter and providing a forum where Board, senior management and auditors can communicate with each other
- » Determining whether the Bank's administrative, operating and accounting controls are adequate.

### Board Nominations Committee

The Nominations Committee has been established to independently assess the fairness and propriety of all candidates for the positions of Director. In addition, the Committee ensures that those persons interviewed for the position of Director have the appropriate level of skills, experience and qualifications to be eligible to be a Director. This Committee holds at least one meeting each year.

## Directors and CEO



### Chair

*Mr David Walton*

*Corporate Governance and Audit Committee (Chair)*

Mr Walton is an experienced non-executive Director and has been a Board member since 2001. He has experience as a Detective Inspector of Police (NSW), an audit and risk executive with EnergyAustralia (Ausgrid) and a casual academic with Charles Sturt University, the University of Western Sydney and the Australian Institute of Police Management. Mr Walton is a Fellow of the Australian Institute of Company Directors and holds a Bachelor of Business, Master of Leadership and Management and attended the corporate governance program at Harvard Business School. He is also a Director of Chelsea Wealth Management Pty Ltd and auditor of the Retired Police Association and the NSW Police RSL Sub-Branch.



### Deputy Chair

*Mr Colin Dyson*

*Risk (Chair), Corporate Governance and Audit Committees*

Mr Dyson has been a member of the Board since 2012. He has had a distinguished career as a former Detective Superintendent of Police, Commander of the NSWPF Fraud and Cybercrime squad. He is a recipient of the Australian Police Medal, National Medal 2nd clasp, NSW Police Medal 6th clasp, and the National Police Medal. He holds qualifications in management, personnel management and corporate governance, and has completed Strategic Leadership and Command Development programs with the NSWPF.



### Director

*Mr Raff Del Vecchio*

*Corporate Governance and Audit Committees*

Mr Del Vecchio has been a Director since 2008. He has held the positions of CEO of the Migration Institute of Australia and Head of Administrative Services for the Police Association of NSW, is a former director of Police Legacy NSW, the Police Superannuation Advisory Board, and former President and Chairman of the Eastern Suburbs Football Association. He has worked in fraud identification, risk management and card operations for financial institutions, holds qualifications in corporate governance, criminology and policing, and co-authored Financial Best Practices in Trade Unions for the ACTU. He is a member of the Retired Police Association.



**Director**

*Mr David Hudson*

*Corporate Governance Committee*

Mr Hudson is a new Director, elected since our last annual report. He has a distinguished service record in the NSW Police Force, including as Deputy Commissioner for Investigations and Counter Terrorism, Deputy Commissioner for Corporate Services, Commander of State Crime Command and Local Area Commander of Rosehill and Mt Druitt. He has been awarded the Australian Police Medal, Police National Service Medal, National Service Medal 2nd clasp, Police Medal 5th clasp and a Commissioner's Commendation for Service. He is a Master of Public Policy and holds other qualifications in criminology and corporate governance.



**Director**

*Ms Clare Mazzetti*

*Audit and Risk Committees*

Ms Mazzetti has a solid track record in corporate governance through her former memberships of the Australian Shareholders Association, the Australian Medical Assertion Foundation (QLD) and the Agriculture Management Company, and in banking and finance with Macquarie Bank, AMP and as an independent consultant. She holds an MBA, as well as qualifications in economics, governance and risk management. She is a member of FINSIA and the AICD, and is a director of Chelsea Wealth Management Pty Ltd.



**Director**

*Mr Greg McKenna*

*Audit and Risk Committees*

Mr McKenna has been a Director since 2012. He has a solid track record in banking and finance with State Super, Westpac and NAB, and as an independent economic, trading and banking consultant. He is a contributing editor to Business Insider Australia, and holds a Masters of Applied Finance and other qualifications in business and corporate governance.

**"I have been with the Police Bank for many years and never intend on changing banks."**

*- Liz, Member*

## Directors and CEO



### Director

*Mr Robert Redfern*  
*Audit (Chair) and Risk Committees*

Mr Redfern has been a Director since 2013. He has had a distinguished career in policing and law as a solicitor in the Supreme Court of NSW and High Court of Australia and as Commander of Workforce Safety NSWPF, the latest of several leadership positions in the NSWPF. He has earned the Australian Police Medal, National Medal and the Commissioner's Commendation for Service, and holds qualifications in law, economics, criminology and police management, public administration and a Master of Studies in applied criminology and management from Cambridge.



### Director

*Mr Peter Remfrey*  
*Audit and Risk Committees*

Mr Remfrey has been a Director since 2016. He has been the secretary of the Police Association of NSW since 1994, branch administrator of the NSW Police branch of the Police Federation of Australia since 1988, and is a trustee and member of the Finance and Governance Committee of Unions NSW. He is a life member of the Police Association of NSW and holds qualifications in economics, union management and industrial relations. He is also an accredited mediator and a member of the AICD.



### Director

*Mrs Liz Swain*  
*Audit and Risk Committees*

Mrs Swain was appointed by the Board after the successful merger with Heritage Isle in May 2018. A metallurgist and leader (superintendent of large teams, operations, engineering and maintenance) with Rio Tinto at the Bell Bay Aluminium smelter in Tasmania for 43 years. She has been recognised for her contribution as a role model for female engineers and to the community in a range of services (Tasmanian Business Woman of the Year and a diversity scholarship with the Australian Institute of Company Director's (AICD) and the Federal Government). She has tertiary qualifications in metallurgy, chemistry, business, leadership and a Masters of Business Administration, and is a graduate and member of AICD. This year she was admitted as a Member of the Order of Australia (AM) - for her contribution in the mining industry as a metallurgist and leader, role model for female engineers and her community service over many years.



#### Director

### *Mr Scott Weber*

#### *Corporate Governance Committee*

Mr Weber has been a Director since 2015. He has served as President of the NSW Police Association and Vice President of the Police Federation of Australia. He is a Sergeant of Police (NSW) and a former member of the Police Superannuation Advisory Board. He holds qualifications in corporate governance and policing. Scott is now the current CEO of the Police Federation of Australia representing over 62,000 Police Officers across the country.



#### Chief Executive Officer

### *Mr Tony Taylor*

Mr Taylor is the CEO of Police Bank. He is a certified practicing accountant, a fellow of FINSIA and a member of the AICD. His career includes directorships at CUA Health and Credicorp Finance, as well as CFO roles at Credit Union Australia, Bank South Pacific and Bankwest's retail bank. He is currently a director of Chelsea Wealth Management Pty Ltd.

# From our CEO

Executive Committee





# Chief Executive Officer's Report

I am very proud of the achievements that Police Bank has made over the past financial year, and indeed in the time that I have been a part of the Bank.

The Bank's profit after providing for income tax amounted to \$8,438,683 with a return on average assets of 0.44%. Our assets increased during the year by \$230M from \$1,681M to \$1,911M, while the Bank loan portfolio grew by 16.3% during the year. These results were achieved in an environment that was also experiencing the ongoing effect of low interest rates and strong competition in the domestic banking industry.

As always, our Members are the core of what we do. Our financial results are a reflection of the support of our Members for the products and services offered by the Bank, and the ongoing attention given by the Bank to deliver the best possible products and service for our Members. I am pleased to report that we have grown our Membership by 11.5% in the last financial year to 73,324.

In September 2017, we celebrated reaching \$1.4 billion of Loans Under Management, and by May 2018, we had reached \$1.5 billion of Loans Under Management. This is a fantastic result for Police Bank and shows that we are the trusted bank of choice.

In February 2018, we implemented the New Payments Platform (NPP), transforming the way that we pay each other. The NPP allows payments in near real time transfers to other banks participating in the platform (typically in less than one minute, making banking faster and simpler for our Members, providing an enhanced banking experience.

In line with our inorganic growth ambitions over the year, our management team worked with Heritage Isle Credit Union to consider a merger of the two

organisations and the HICU Members voted in favour of the proposal on the 20th of April.

On 1st May 2018, a huge milestone was reached for Police Bank Group, as the transfer of Heritage Isle Credit Union into Police Bank took effect and operations began trading under the new brand 'Bank of Heritage Isle'. Retaining the Heritage Isle name in Tasmania reflects our ongoing commitment to the region as does the retention of all Tasmanian Branches and team members. During FY19 we will complete the integration of Bank of Heritage Isle into Police Bank.

While we will continue to strive to reach our strategic goals, the year ahead is looking more challenging with a number of factors causing headwinds that we must be aware of. Most noticeably, the housing market is slowing, and the community is questioning the social licence of banks.

Yet with these challenges comes real opportunity. We have a great team, and if we continue to play to our strengths and focus on our values, we will be well equipped to face these challenges head on. We will continue to invest in the right people and resources, and continue to grow our balance sheet responsibly. In FY18 our Bank has become bigger, better and more capable due to the commitment, passion, and dedication of everyone in our teams. In FY19, we will optimise our offerings, enhance our digital capability, while ensuring that we have compliant and efficient delivery of our products and services each and every time.

I am pleased by the development of the Bank and look forward to another year of strengthening our relationship within the Police, Department of Home Affairs, and our Bank of Heritage Isle communities.

*Tony Taylor*

**Tony Taylor**  
Chief Executive Officer

# Chair's Report

It is my pleasure to introduce the 2017/2018 Police Bank Annual Report and Financial Statements. The past financial year has been an outstanding year for Police Bank, and once again I am proud to report that we have achieved a strong operating performance in a year where we have also focused on growth.

We said thank you and farewell to two Directors this year, Geoffrey Richard Green who retired from the Board on 23 November 2017 after 28 years of service and Greg McKenna who retired from the Board on 26 July 2018 after 6 years of service.

I would also like to thank my fellow Directors on our Board for their commitment during the past financial year. FY18 also saw Police Bank welcome two new Board members David William Hudson (Elected 23 November 2017) and Elizabeth Jean Swain (Merger Appointed Director 1 May 2018). Both David and Elizabeth bring with them a wealth of experience and their contributions are having a positive impact on the Board. We look forward to working alongside them during the coming year.

The 2019 Financial Year will continue to see a transformation of the Bank while we continue to support the Policing community through various social initiatives.

We will also continue to invest in integrating Bank of Heritage Isle into Police Bank, with a focus on shared technology resources across the organisation to achieve cost savings that will benefit our Members.

On behalf of our Board and Management, I would like to thank you, our Members, for your ongoing support and loyalty.

*David Walton*  
David Walton  
Chair

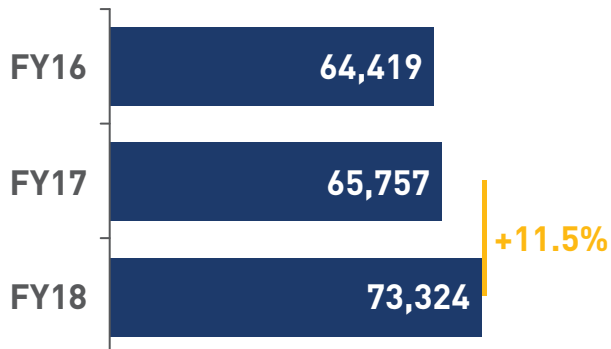




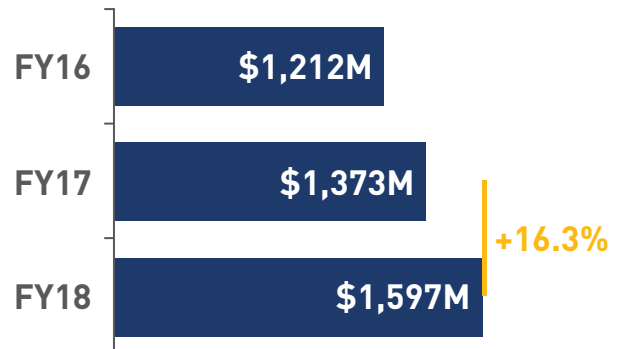
## Key Statistics

For the year ended 30 June 2018

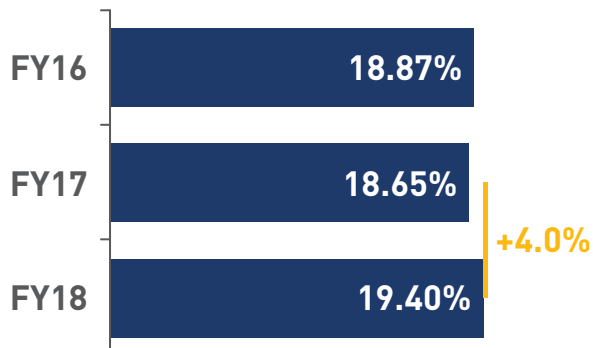
### Active Membership



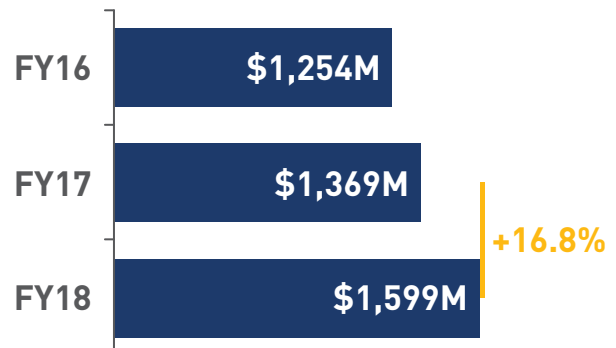
### Loan Balances



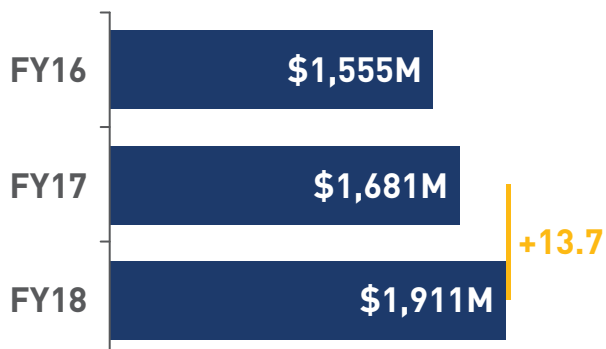
### Capital Adequacy Ratio



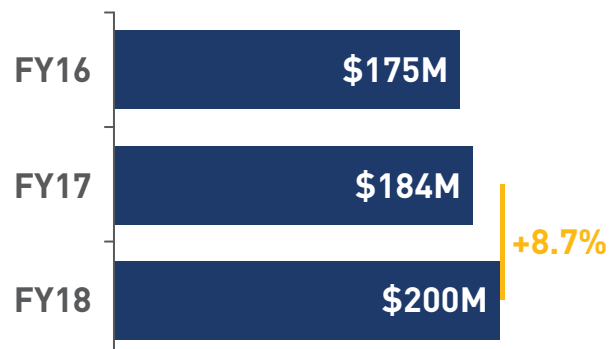
### Member Deposits



### Consolidated Assets



### Reserves



# Directors' Report

For the year ended 30 June 2018

## Directors' and Officers' Disclosures

The names of Directors and Officers in office at the date of this report or who held office during the course of the financial year are:

- » David Charles Walton (Chair)
- » Colin James Dyson (Deputy Chair)
- » Raff Del Vecchio
- » Geoffrey Richard Green (Retired 23 November 2017)
- » David William Hudson (Elected 23 November 2017)
- » Clare Mariesa Mazzetti
- » Gregory John McKenna
- » Robert John Redfern
- » Peter James Remfrey
- » Elizabeth Jean Swain (Merger Appointed Director 1 May 2018)
- » Scott David Weber
- » Tony Taylor (Chief Executive Officer)
- » Craig Townsend (Chief Financial Officer)
- » Jennifer Miller (Company Secretary)

## Directors' benefits

No Director has received or become entitled to receive during, or since the financial year, a benefit because of a contract made by the Bank, controlled entity, or a related body corporate with a Director, a firm of which a Director is a member or an entity in which a Director has a substantial financial interest, other than that disclosed in note 34 of the financial report.

## Indemnification and insurance

During the year a premium was paid in respect of a contract insuring Directors and Officers of the Bank, against any costs and expenses incurred by them in defending any legal proceeding arising out of their conduct while acting in their capacity as an Officer of the Bank. The Officers of the Bank covered by the insurance contract include the Directors, Executive Officers, Secretary and Employees. In accordance with normal commercial practice disclosure of the premium amount and the nature of the insured liabilities is prohibited by a confidentiality clause in the contract.

No insurance cover has been provided for the benefit of the auditors of the Bank.

	Board		Audit Committee		Risk Committee		Governance Committee	
	MEETINGS ATTENDED	ELIGIBLE ATTENDED	MEETINGS ATTENDED	ELIGIBLE ATTENDED	MEETINGS ATTENDED	ELIGIBLE ATTENDED	MEETINGS ATTENDED	ELIGIBLE ATTENDED
Walton	11	11	3	4	4	4	3	3
Dyson	11	11	4	4	4	4	1	1
Del Vecchio	10	11	3	4	-	-	3	3
Green	4	5	1	1	-	-	1	1
Hudson	5	6	-	-	-	-	1	1
Mazzetti	10	11	4	4	4	4	-	-
McKenna	11	11	4	4	4	4	-	-
Redfern	10	11	4	4	4	4	-	-
Remfrey	11	11	3	3	4	4	-	-
Swain	2	2	-	-	-	-	-	-
Weber	11	11	-	-	-	-	3	3

Note: Directors Del Vecchio, Hudson and Redfern were granted a leave of absence for one Board Meeting each.

# Directors' Report

For the year ended 30 June 2018

### Share options

The Bank has not issued any option over shares. All shares issued by the Bank are withdrawable shares.

### Principal activities

The principal activities of the Bank during the year were the provision of financial and associated services to Members.

There were no significant changes in the principal activities during the year.

### Operating results

The net profit of the Bank for the year after providing for income tax was \$8,438,683 [2017 \$8,292,249], with a return on average assets of 0.44%.

Total Assets increased during the year by \$230M from \$1,681M to \$1,911M. The year's growth had a positive impact on the capital adequacy ratio which increased to 19.40% [2017 18.65%], this ratio remains well above the statutory minimum of 8%. The Bank loan portfolio grew by 16.3% during the year.

The Bank continues to be a strong performing institution and these results were achieved in the environment where the lingering effects of the earlier global financial crisis continue, and competition in the domestic banking industry continues to be intense with depositors benefiting from higher margins. The results reflect the continuing support of the Membership for the products and services offered by the Bank and the ongoing attention given by both the Board and Management to Members service, relevant products and the control of costs. It is envisaged that the results for the year ending 30 June 2019 will be similar to those achieved in 2018.

### Dividends

Dividends paid or declared by the Consolidated Group since the end of the previous financial year was \$825,000, paid to the shareholders of Chelsea Wealth Management Pty Ltd. Police Bank Ltd is the majority shareholder of Chelsea Wealth Management Pty Ltd. The dividend was 100% franked.

### Non-audit services

Non-audit services were provided by Grant Thornton (auditor of the Bank) amounting to \$24,739.

### Review of operations

The results of the Bank's operations from its activities of providing financial services to its Members did not change significantly from those of the previous year.

### Significant changes in state of affairs

There were no significant changes in the state of the affairs of the Bank during the year.

### Events occurring after the end of the reporting date

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations, or state of affairs of the Bank in subsequent financial years.

### Likely developments and results

No matter, circumstances or likely developments in the operation has arisen since the end of the financial year that has significantly affected:

- » The operations of the Bank;
- » The results of those operations; or
- » The state of affairs of the Bank

in the financial years subsequent to this financial year.

### Auditors Independence

The auditors have provided the declaration of independence to the board as prescribed by the Corporations Act 2001 as set out on page 30.

# Directors' Declaration

25th October 2018

## Acknowledgments

In concluding this Report, the Board wishes to acknowledge its appreciation of Tony Taylor, Chief Executive Officer, the Management and staff of the Bank without whose expertise and commitment the achievements of the past year would not have been achieved.

This Report is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Directors by:



**David C Walton**  
Chair,  
25th October 2018



**Colin Dyson**  
Deputy Chair,  
25th October 2018

## Police Bank Ltd Directors' Declaration

The Directors of Police Bank Ltd declare that:

In the opinion of the directors of Police Bank Ltd:

- a) the financial statements and notes of Police Bank Ltd and its controlled entities are in accordance with the Corporations Act 2001, including
  - i) giving a true and a fair view of its financial position as at 30 June 2018 and of its performance for the financial year ended on that date; and
  - ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- b) there are reasonable grounds to believe that Police Bank Ltd and its controlled entities will be able to pay its debts as and when they become due and payable.
- c) the financial statements comply with International Financial Reporting Standards, as stated in Note 1.

Signed in accordance with a resolution of the directors.



**David C Walton**  
Chair,  
25th October 2018



**Colin Dyson**  
Deputy Chair,  
25th October 2018



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W [www.granthornton.com.au](http://www.granthornton.com.au)

## Auditor's Independence Declaration

To the Directors of Police Bank Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Police Bank Limited for the year ended 30 June 2018, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b no contraventions of any applicable code of professional conduct in relation to the audit.

*Grant Thornton*

Grant Thornton Audit Pty Ltd  
Chartered Accountants

*Madeleine Mattera*

Madeleine Mattera  
Partner – Audit & Assurance

Sydney, 25 October 2018

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## Independent Auditor's Report

To the Members of Police Bank Limited

### Report on the audit of the financial report

#### Opinion

We have audited the financial report of Police Bank Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in members' equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the Directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- a giving a true and fair view of the Group's financial position as at 30 June 2018 and of its performance for the year ended on that date; and
- b complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



#### Information other than the financial report and auditor's report thereon

The Directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### Responsibilities of the Directors' for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001*. The Directors' responsibility also includes such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

#### Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: [http://www.auasb.gov.au/auditors\\_responsibilities/ar4.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf). This description forms part of our auditor's report.

*Grant Thornton*

Grant Thornton Audit Pty Ltd  
Chartered Accountants

*Madeleine Mattera*

Madeleine Mattera  
Partner – Audit & Assurance

Sydney, 25 October 2018

# Consolidated statement of PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2018

	Note(s)	CONSOLIDATED		POLICE BANK	
		2018	2017	2018	2017
		\$	\$	\$	\$
Interest Revenue	2a	74,557,634	68,991,317	74,557,634	68,991,317
Borrowing Costs	2b	(31,087,645)	(28,271,975)	(31,087,645)	(28,271,975)
Net Interest Revenue		43,469,989	40,719,342	43,469,989	40,719,342
Other revenue from ordinary activities	3	11,656,419	11,617,317	9,077,298	9,300,120
Impairment losses on Loan Receivables from Members	4a	(655,391)	(510,581)	(655,391)	(510,581)
Fees and Commission		(6,262,039)	(6,771,250)	(6,262,039)	(6,771,250)
General Administration					
- Personnel expenses		(20,346,724)	(18,150,872)	(18,875,514)	(16,810,483)
- Depreciation and Amortisation	4b	(2,268,900)	(2,476,933)	(1,525,523)	(2,042,076)
- Lease expenses		(1,106,142)	(879,022)	(961,770)	(879,022)
- Other administration expenses		(7,931,865)	(6,205,367)	(7,551,101)	(5,773,856)
Other operating expenses		(4,446,040)	(5,220,384)	(4,446,040)	(5,220,384)
Operating Profit before Income Tax		12,109,307	12,122,250	12,269,909	12,011,810
Income Tax Expense	5	(3,670,624)	(3,830,001)	(3,296,265)	(3,488,412)
<b>Operating Profit after Income Tax</b>		<b>8,438,683</b>	<b>8,292,249</b>	<b>8,973,644</b>	<b>8,523,398</b>
Other comprehensive income that will be eventually recognised in income					
- Changes in the fair value of cash flow hedges		44,101	160,791	44,101	160,791
<b>Total comprehensive income</b>		<b>8,482,784</b>	<b>8,453,040</b>	<b>9,017,745</b>	<b>8,684,189</b>
Attributable to:					
Non-Controlling Interests		166,075	161,610	-	-
Members of the parent entity		8,316,709	8,291,430	9,017,745	8,684,189
<b>Total Comprehensive income</b>		<b>8,482,784</b>	<b>8,453,040</b>	<b>9,017,745</b>	<b>8,684,189</b>

These accounts should be read in conjunction with the accompanying notes.

## Consolidated statement of **CHANGES IN MEMBERS' EQUITY**

For the year ended 30 June 2018

CONSOLIDATED	Capital Account	Retained Profits	Transfer of Engagements Reserve	Reserve for Credit Losses	Asset Revaluation Reserve	Other Reserves	Total
	\$	\$	\$	\$	\$	\$	\$
<b>Balance 1 July 2016</b>	412,060	129,801,639	-	2,299,695	268,875	42,489,861	175,272,130
Operating Profit for the year	-	8,292,249	-	-	-	-	8,292,249
Capital Contribution by non-controlling Interest	-	-	-	-	-	137,600	137,600
Profit attributable to non-controlling Interest	-	(161,610)	-	-	-	161,610	-
<b>Transfers to and from Reserves</b>							
- General Reserves	-	(1,200,000)	-	-	-	1,200,000	-
- Capital Account	20,700	(20,700)	-	-	-	-	-
- Reserves for Credit Losses	-	(440,905)	-	440,905	-	-	-
- Dividends Paid	-	-	-	-	-	(164,200)	(164,200)
Cash Flow Hedge Reserve	-	-	-	-	-	160,791	160,791
<b>Balance 30 June 2017</b>	<b>432,760</b>	<b>136,270,673</b>	<b>-</b>	<b>2,740,600</b>	<b>268,875</b>	<b>43,985,662</b>	<b>183,698,570</b>
<b>Balance 1 July 2017</b>	432,760	136,270,673	-	2,740,600	268,875	43,985,662	183,698,570
Operating Profit for the year	-	8,438,683	-	-	-	-	8,438,683
Capital Contribution by non-controlling Interest	-	-	-	-	-	32,336	32,336
Profit attributable to non-controlling Interest	-	(166,075)	-	-	-	166,075	-
<b>Transfers to and from Reserves</b>							
- General Reserves	-	(1,200,000)	-	-	-	1,200,000	-
- Capital Account	9,410	(9,410)	-	-	-	-	-
- Reserves for Credit Losses	-	(139,400)	-	139,400	-	-	-
- Dividends Paid	-	-	-	-	-	(165,000)	(165,000)
- Transfer of Engagements	-	-	7,036,662	326,345	834,859	-	8,197,866
Cash Flow Hedge Reserve	-	-	-	-	-	44,101	44,101
<b>Balance 30 June 2018</b>	<b>442,170</b>	<b>143,194,471</b>	<b>7,036,662</b>	<b>3,206,345</b>	<b>1,103,734</b>	<b>45,263,174</b>	<b>200,246,556</b>

These accounts should be read in conjunction with the accompanying notes.

# Consolidated statement of CHANGES IN MEMBERS' EQUITY

For the year ended 30 June 2018

POLICE BANK	Capital Account	Retained Profits	Transfer of Engagements Reserve	Reserve for Credit Losses	Asset Revaluation Reserve	Other Reserves	Total
	\$	\$	\$	\$	\$	\$	\$
<b>Balance 1 July 2016</b>	412,060	130,000,198	-	2,299,695	268,875	41,386,214	174,367,042
Operating Profit for the year	-	8,523,398	-	-	-	-	8,523,398
<b>Transfers to and from Reserves</b>							
- General Reserves	-	(1,200,000)	-	-	-	1,200,000	-
- Capital Account	20,700	(20,700)	-	-	-	-	-
- Reserves for Credit Losses	-	(440,905)	-	440,905	-	-	-
Cash Flow Hedge Reserve	-	-	-	-	-	160,791	160,791
<b>Balance 30 June 2017</b>	<b>432,760</b>	<b>136,861,991</b>	<b>-</b>	<b>2,740,600</b>	<b>268,875</b>	<b>42,747,005</b>	<b>183,051,231</b>
<b>Balance 1 July 2017</b>	432,760	136,861,991	-	2,740,600	268,875	42,747,005	183,051,231
Operating Profit for the year	-	8,973,644	-	-	-	-	8,973,644
<b>Transfers to and from Reserves</b>							
- General Reserves	-	(1,200,000)	-	-	-	1,200,000	-
- Capital Account	9,410	(9,410)	-	-	-	-	-
- Reserves for Credit Losses	-	(139,400)	-	139,400	-	-	-
- Transfer of Engagements	-	-	7,036,662	326,345	834,859	-	8,197,866
Cash Flow Hedge Reserve	-	-	-	-	-	44,101	44,101
<b>Balance 30 June 2018</b>	<b>442,170</b>	<b>144,486,825</b>	<b>7,036,662</b>	<b>3,206,345</b>	<b>1,103,734</b>	<b>43,991,106</b>	<b>200,266,842</b>

These accounts should be read in conjunction with the accompanying notes.

## Consolidated statement of **FINANCIAL POSITION**

For the year ended 30 June 2018

	Note(s)	CONSOLIDATED		POLICE BANK	
		2018	2017	2018	2017
<b>Assets</b>		\$	\$	\$	\$
Cash and Liquid Assets	6	39,203,802	45,469,728	38,720,318	45,010,828
Receivables due from other Financial Institutions	7	45,900,000	24,000,000	45,900,000	24,000,000
Receivables	8	4,366,008	4,145,545	4,088,750	3,860,787
Investment Securities	9	173,729,483	196,724,713	173,729,483	196,724,713
Loans and Advances	10 & 11	1,594,299,640	1,370,277,171	1,594,299,640	1,370,277,171
Available for Sale Investments	12(a)	23,103,973	11,332,671	23,103,973	11,332,671
Investment in Subsidiary	12(b)	-	-	5,403,458	5,274,117
Non-current Assets Available for Sale	12(c)	1,497,575	-	1,497,575	-
Property Plant and Equipment	13	21,474,121	22,191,091	21,384,583	22,110,024
Intangible Assets	14	5,617,502	5,674,147	608,149	121,137
Taxation Assets	15	1,705,839	1,474,717	1,705,839	1,474,717
<b>Total Assets</b>		<b>1,910,897,943</b>	<b>1,681,289,783</b>	<b>1,910,441,768</b>	<b>1,680,186,165</b>
<b>Liabilities</b>					
Payables to other Financial Institutions	16	90,571,332	108,160,357	90,571,332	108,160,357
Deposits and Borrowings	17	1,599,182,177	1,368,935,288	1,599,182,177	1,368,935,288
Creditors and other Liabilities	18	16,865,108	16,999,729	16,712,408	16,942,379
Provisions	19	3,485,663	2,841,401	3,387,473	2,670,418
Taxation Liabilities	20	541,213	604,443	315,642	376,497
Derivative Fair Value		5,894	49,995	5,894	49,995
<b>Total Liabilities</b>		<b>1,710,651,387</b>	<b>1,497,591,213</b>	<b>1,710,174,926</b>	<b>1,497,134,934</b>
<b>Net Assets</b>		<b>200,246,556</b>	<b>183,698,570</b>	<b>200,266,842</b>	<b>183,051,231</b>
<b>Member Funds</b>					
Capital Account	21	442,170	432,760	442,170	432,760
Reserves		48,307,086	45,806,467	48,307,079	45,806,475
Retained Profits		150,198,807	136,270,673	151,523,487	136,861,991
Cash Flow Hedge Reserve		(5,894)	(49,995)	(5,894)	(49,995)
Non-Controlling Interest		1,304,387	1,238,665	-	-
<b>Total Member Funds</b>		<b>200,246,556</b>	<b>183,698,570</b>	<b>200,266,842</b>	<b>183,051,231</b>

These accounts should be read in conjunction with the accompanying notes.

# Consolidated statement of CASH FLOWS

For the year ended 30 June 2018

	Note(s)	CONSOLIDATED		POLICE BANK	
		2018	2017	2018	2017
<b>Cash Flow From Operating Activities</b>		\$	\$	\$	\$
Interest Received- Loans		74,583,445	69,602,301	74,583,445	69,602,301
Other Income		11,241,985	11,049,037	8,002,864	8,075,040
Dividends Received		316,897	532,544	976,897	1,189,344
Interest Paid		(29,560,083)	(28,235,596)	(29,560,083)	(28,235,596)
Suppliers and Employees		(41,956,340)	(35,539,439)	(39,998,461)	(33,708,018)
Taxes Paid		(4,294,359)	(4,134,998)	(3,920,000)	(3,900,000)
<b>Net Cash from Revenue Activities</b>	<b>38c</b>	<b>10,331,545</b>	<b>13,273,849</b>	<b>10,084,662</b>	<b>13,023,071</b>
<b>Inflows from Other Operating Activities</b>					
Net Movement in Member Loans		(143,638,929)	(160,773,764)	(143,638,929)	(160,773,764)
Net Movement in Member Shares		(12,495)	(20,570)	(12,495)	(20,570)
Net Movement in Deposits		135,161,438	114,576,474	135,161,438	114,576,474
<b>Net Cash from Operating Activities</b>		<b>1,841,559</b>	<b>(32,944,011)</b>	<b>1,594,676</b>	<b>(33,194,789)</b>
<b>Cash Flows from Investing Activities</b>					
Investment Redemption		669,604,131	625,800,167	669,604,131	625,800,167
Proceeds from Sale of Fixed Assets		197,018	104,886	171,518	104,886
Net Assets on transfer of engagements		4,384,738	-	4,384,738	-
Purchase of Investments		(662,882,397)	(588,837,920)	(662,914,731)	(588,975,520)
Purchase of Fixed Assets		(1,495,273)	(767,431)	(1,412,475)	(745,549)
Purchase of Customer Contracts		(161,677)	(688,000)	(129,342)	(550,400)
<b>Net Cash Used in Investing Activities</b>		<b>9,646,540</b>	<b>35,611,702</b>	<b>9,703,839</b>	<b>35,633,584</b>
<b>Cash Flow from Financing Activities</b>					
Net Movement in Borrowings		(17,589,025)	1,803,198	(17,589,025)	1,803,198
Dividend Paid		(165,000)	(164,200)	-	-
<b>Net Cash Provided by Financing Activities</b>		<b>(17,754,025)</b>	<b>1,638,998</b>	<b>(17,589,025)</b>	<b>1,803,198</b>
<b>Net Increase (Decrease) in Cash</b>		<b>(6,265,926)</b>	<b>4,306,689</b>	<b>(6,290,510)</b>	<b>4,241,993</b>
Cash at Beginning of Year		45,469,728	41,163,039	45,010,828	40,768,835
Cash at End of Reporting		39,203,802	45,469,728	38,720,318	45,010,828
<b>Reconciliation of Cash at End of Reporting Period</b>	<b>38a</b>				
Cash		15,198,187	7,451,459	14,714,704	6,992,559
Deposits at Call		24,005,615	38,018,269	24,005,614	38,018,269
<b>Total</b>		<b>39,203,802</b>	<b>45,469,728</b>	<b>38,720,318</b>	<b>45,010,828</b>

These accounts should be read in conjunction with the accompanying notes.

## Notes to the accounts

For the year ended 30 June 2018

### 1. Statement of Significant Accounting Policies

This financial report is prepared for Police Bank Ltd and subsidiaries' for the year ended the 30 June 2018. The report was authorised for issue on 25th October 2018 in accordance with a resolution of the Board of Directors. The financial report is presented in Australian dollars.

Police Bank Ltd is a public company incorporated and domiciled in Australia. The address of its principal place of business is 25 Pelican Street, Surry Hills NSW 2010.

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. Compliance with Australian Accounting Standards ensures compliance with the International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB). Police Bank Ltd is a for-profit entity for the purpose of preparing the financial statements.

#### a. Basis of measurement

The financial statements have been prepared on an accruals basis, and are based on historical costs, which do not take into account changing money values or current values of non-current assets except for certain for sale investments which are stated at fair value. The accounting policies are consistent with the prior year unless otherwise stated.

#### b. REPO securitisation trust consolidation

The Bank has initiated the creation of a trust which holds rights to a portfolio of mortgage secured loans to enable the Bank to secure funds from the Reserve Bank of Australia if required to meet emergency liquidity requirements. The Bank continues to manage these loans and receives all residual benefits from the trust and bears all losses should they arise. Accordingly,

- (i) The trust meets the definition of a controlled entity and,
- (ii) As prescribed under the accounting standards, since the Bank has not transferred all risks and rewards to the trust, the assigned loans are retained on the books of the Bank and not derecognised.

#### c. Classification and subsequent measurement of financial assets

Financial assets and financial liabilities are recognised when the Bank becomes a party to the contractual provisions of the financial instrument, and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss, which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- loans and receivables
- financial assets at fair value through profit or loss (FVTPL)
- held-to-maturity (HTM) investments
- available-for-sale (AFS) financial assets.

The category determines subsequent measurement and whether any resulting income and expense is recognised in profit or loss or in other comprehensive income.

All financial assets except for those at FVTPL are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and expenses relating to financial assets that are recognised in profit or loss, are presented within finance costs, finance income or other financial items, except for impairment of loans and receivables which is presented within other expenses.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method, less provision for impairment. The Bank's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in Banks, which are determined by reference to the industry and region of a counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified Bank.

#### Financial assets at fair value through profit or loss (FVTPL)

Financial assets at FVTPL include financial assets that are either classified as held for trading or that meet certain conditions and are designated at FVTPL upon initial recognition. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply (see below).

Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

#### Held to maturity (HTM) investments

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments are classified as HTM if the Bank has the



# Notes to the accounts

For the year ended 30 June 2018

intention and ability to hold them until maturity. The Bank currently holds Term Deposits, Negotiable Certificates of Deposit (NCD), Floating Rate Notes, and Bank Accepted Bills of Exchange in this category. If more than an insignificant portion of these assets are sold or redeemed early then the asset class will be reclassified as Available for Sale financial assets.

HTM investments are measured subsequently at amortised cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognised in profit or loss.

## Available for sale (AFS) financial assets

AFS financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets.

The equity investment in Cuscal Limited is measured at cost less any impairment charges, as its fair value cannot currently be estimated reliably. Impairment charges are recognised in profit or loss.

All other AFS financial assets are measured at fair value. Gains and losses on these assets are recognised in other comprehensive income and reported within the AFS reserve within equity, except for impairment losses, which are recognised in profit or loss.

When the asset is disposed of or is determined to be impaired, the cumulative gain or loss recognised in other comprehensive income is reclassified from the equity reserve to profit or loss, and presented as reclassification adjustments within other comprehensive income. Interest calculated using the effective interest method and dividends are recognised in profit or loss within 'finance income'.

Reversals of impairment losses are recognised in other comprehensive income, except for financial assets that are debt securities which are recognised in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognised.

## d. Classification and subsequent measurement of financial liabilities

The Bank's financial liabilities include borrowings, trade and other payables and derivative financial instruments.

Financial liabilities are measured subsequently at amortised cost using the effective interest method, except for financial liabilities held for trading or designated at fair value through profit or loss (FVTPL), that are carried subsequently at fair value with gains or losses recognised in profit or loss. All derivative financial instruments that are not designated and effective as hedging instruments are accounted for at FVTPL.

## Derivative financial instruments and hedge accounting

Derivative financial instruments are accounted for at FVTPL except for derivatives designated as hedging instruments in cash flow hedge relationships, which requires a specific accounting treatment. To qualify for hedge accounting, the hedging relationship must meet several strict conditions with respect to documentation, probability of occurrence of the hedged transaction and hedge effectiveness.

All derivative financial instruments used for hedge accounting are recognised initially at fair value and reported subsequently at fair value in the statement of financial position. To the extent that the hedge is effective, changes in the fair value of derivatives designated as hedging instruments in cash flow hedges are recognised in other comprehensive income and included within the cash flow hedge reserve in equity. Any ineffectiveness in the hedge relationship is recognised immediately in profit or loss.

At the time the hedged item is reflected in profit or loss, any gain or loss from the hedging instrument previously recognised in other comprehensive income is reclassified from equity to profit or loss in the same line of the statement of comprehensive income as the recognised hedged item. However, if a non-financial asset or liability is recognised as a result of the hedged transaction, the gains and losses previously recognised in other comprehensive income are included in the initial measurement of the hedged item.

If a forecast transaction is no longer expected to occur or if the hedging instrument becomes ineffective, any related gain or loss recognised in other comprehensive income is transferred immediately to profit or loss.

## e. Loans to Members

### Basis of recognition

All loans are initially recognised at fair value, net of loan origination fees and inclusive of transaction costs incurred. Loans are subsequently measured at amortised cost. Any difference between the proceeds and the redemption amount is recognised in the profit or loss over the period of the loans using the effective interest method.

Loans to Members are reported at their recoverable amount representing the aggregate amount of principal and unpaid interest owing to the Bank at the reporting date, less any allowance or provision against impairment for debts considered doubtful. A loan is classified as impaired where recovery of the debt is considered unlikely as determined by the Board of Directors.

#### (i) Interest on loans – Method of calculation

Interest charged by the Bank on Members' loans funded before the introduction of the Consumer Credit Code on 1st November 1996, other than Overdrafts, are calculated on the basis of charging interest in the initial month from the date the loan is advanced, and thereafter on the first day of the month on the opening balance. On completion of a loan, a full month's interest is charged on the opening balance for the month in which the loan is finalised. For loans funded after 1st November 1996, the interest is calculated on the basis of the daily balance outstanding and is charged in arrears on the last day of each month.

#### (ii) Non-accrual loan interest

While still legally recoverable, interest is not brought to account as income when the Bank is informed that the Member has deceased, or on impaired loans where recovery of the debt is considered unlikely.

## Transaction costs

Transaction costs are expenses which are direct and incremental to the establishment of the loan. These costs are initially deferred as part of the loan balance, and are brought to account as a reduction to income over the expected life of the loan, and included as part of interest revenue.

## Notes to the accounts

For the year ended 30 June 2018

### Fees on loans

The fees charged on loans after origination of the loan are recognised as income when the service is provided or costs are incurred.

### Net gains and losses

Net gains and losses on loans to Members to the extent that they arise from the partial transfer of business or on securitisation, do not include impairment write downs or reversals of impairment write downs.

### f. Loan impairment

#### Specific and collective provision for impairment

A provision for losses on impaired loans is recognised when there is objective evidence that the impairment of a loan has occurred. Estimated impairment losses are calculated on either a portfolio basis for loans of similar characteristics, or on an individual basis. The amount provided is determined by management and the Board to recognise the probability of loan amounts not being collected in accordance with terms of the loan agreement. The critical assumptions used in the calculation are as set out in Note 11. Note 23 details the credit risk management approach for loans.

The APRA Prudential Standards require a minimum provision to be maintained, based on specific percentages on the loan balance which are contingent upon the length of time the repayments are in arrears. This approach is used to assess the collective provisions for impairment.

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset or a group of financial assets is impaired. Evidence of impairment may include indications that the borrower has defaulted, is experiencing significant financial difficulty, or where the debt has been restructured to reduce the burden to the borrower.

#### Reserve for credit losses

In addition to the above specific provision, the Board has recognised the need to make an allocation from retained earnings to ensure there is adequate protection for Members against the prospect that some Members will experience loan repayment difficulties in the future. The reserve is based on estimation of potential risk in the loan portfolio based upon:

- the level of security taken as collateral; and
- the concentration of loans taken by employment type.

#### Renegotiated loans

Loans which are subject to renegotiated terms which would have otherwise been impaired do not have the repayment arrears diminished and interest continues to accrue to income. Each renegotiated loan is retained at the full arrears position until the normal repayments are reinstated and brought up to date and maintained for a period of 6 months.

### g. Bad debts written off

Bad debts are written off from time to time as determined by Management and the Board of Directors when it is reasonable to

expect that the recovery of the debt is unlikely. Bad debts are written off against the provisions for impairment, if a provision for impairment had previously been recognised. If no provision had been recognised, the write offs are recognised as expenses in the profit or loss.

### h. Property, plant and equipment

Land and buildings are measured at cost less accumulated depreciation. Any revaluation increments are credited to the asset revaluation reserve, unless it reverses a previous decrease in value in the same asset previously debited to the profit or loss. Revaluation decreases are debited to the profit or loss unless it directly offsets a previous revaluation increase in the same asset in the asset revaluation reserve.

Property, plant and equipment, with the exception of freehold land, are depreciated on a straight line basis so as to write off the net cost of each asset over its expected useful life to the Bank. The useful lives are adjusted if appropriate at each reporting date. The following rates are used:

- Building 2.50%
- Office Equipment 20.00%
- EDP Equipment 37.50%
- Motor Vehicles 25.00%
- EDP Software 37.50%
- Office Furniture and Fittings 5% – 20% Leasehold Improvements 2.5% – 25%

Assets less than \$5,000 are not capitalised.

### i. Receivables from other financial institutions

Term deposits and Negotiable Certificates of Deposit with other Financial Institutions are unsecured and have a carrying amount equal to their principal amount. Interest is paid on the daily balance at maturity. All deposits are in Australian currency.

The accrual for interest receivable is calculated on a proportional basis of the expired period of the term of the investment. Interest receivable is included in the amount of receivables in the statement of financial position.

### j. Equity investments and other securities Investments in marketable financial instruments

Available for sale financial instruments held for trading are measured at fair value.

Realised net gains and losses on available for sale financial assets taken to the profit and loss account comprises only gains and losses on disposal.

#### Investments in shares

Investments in shares are classified as available for sale financial assets where they do not qualify for classification as loans and receivables, or investments held for trading.

Investments in shares listed on the stock exchanges are revalued to fair value based on the market bid price at the close of business on

# Notes to the accounts

For the year ended 30 June 2018

the reporting date. Investments in shares which do not have a ready market and are not capable of being reliably valued are recorded at the lower of cost or recoverable amount. Movements in Available for Sale asset balances are reflected in equity through the Available for Sale Reserve. All investments are in Australian currency.

## k. Member deposits

### Basis for measurement

Member savings and term investments are quoted at the aggregate amount payable to depositors as at the reporting date.

### Interest payable

Interest on savings is calculated on the daily balance and posted to the accounts periodically or on maturity of the term deposit. Interest on savings is brought to account on amount of money owing to depositors on an accrual basis in accordance with the interest rate terms and conditions of each savings and term deposit account as varied from time to time. The amount of the accrual is shown as part of amounts payable.

## l. Borrowings

All borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the profit or loss over the period of the loans and borrowings using the effective interest method.

## m. Provision for employee benefits

Short-term employee benefits are current liabilities included in employee benefits, measured at the undiscounted amount that the Bank expects to pay as a result of the unused entitlement. Annual leave is included in 'other long-term benefit' and discounted when calculating the leave liability as the Bank does not expect all annual leave for all employees to be used wholly within 12 months of the end of reporting period. Annual leave liability is still presented as current liability for presentation purposes under AASB 101 Presentation of Financial Statements.

Provision is made for the Bank's liability for employee benefits arising from services rendered by employees to the reporting date. Employee benefits expected to be settled within one year, have been measured at their nominal amount.

Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits discounted using national government bond rates.

Provision for long service leave is on a pro-rata basis from commencement of employment with the Bank based on the present value of its estimated future cash flows.

Annual leave is accrued in respect of all employees on pro-rata entitlement for part years of service and leave entitlement due but not taken at the reporting date. Annual leave is reflected as part of the sundry creditors and accruals.

Contributions are made by the Bank to an employee's superannuation fund and are charged to the profit or loss as incurred.

## n. Leasehold on premises

Leases where the lessor retains substantially all the risks and rewards of ownership of the net asset are classified as operating leases. Payments made under operating leases (net of incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the period of the lease. A provision is recognised for the estimated make good costs on the operating leases, based on the net present value of the future expenditure at the conclusion of the lease term discounted at 5%. Increases in the provision in future years due to the unwinding of the interest charge, is recognised as part of the interest expense.

## o. Income tax

The income tax expense shown in the profit or loss is based on the profit before income tax adjusted for any non tax deductible, or non assessable items between accounting profit and taxable income.

Deferred tax assets and liabilities are recognised using the statement of financial position liability method in respect of temporary differences arising between the tax bases of assets or liabilities and their carrying amounts in the financial statements. Current and deferred tax balances relating to amounts recognised directly in equity are also recognised directly in equity.

Deferred tax assets and liabilities are recognised for all temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable. These differences are presently assessed at 30%.

Deferred tax assets are only brought to account if it is probable that future taxable amounts will be available to utilise those temporary differences. The recognition of these benefits is based on the assumption that no adverse change will occur in income tax legislation; and the anticipation that the Bank will derive sufficient future assessable income and comply with the conditions of deductibility imposed by the law to permit an income tax benefit to be obtained.

## p. Intangible assets

Items of computer software which are not integral to the computer hardware owned by the Bank are classified as intangible assets. Computer software is amortised over the expected useful life of the software. These lives range from 2 to 5 years.

The acquired financial planning business has been recognised as other identifiable intangible assets in the form of acquired customer relationships. These are being amortised over 16 years.

## q. Goods and services tax

As a Financial Institution the Bank is input taxed on all income except for income from commissions and some fees. An input taxed supply is not subject to GST collection, and similarly the GST paid on related or apportioned purchases cannot be recovered. As some income is charged GST, the GST on purchases are generally recovered on a proportionate basis. In addition certain prescribed purchases are subject to reduced input tax credits (RITC), of which 75% of the GST paid is recoverable.

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST). To the extent that the full amount of the GST incurred is not recoverable from the Australian Tax Office

## Notes to the accounts

For the year ended 30 June 2018

(ATO), the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or current liability in the statement of financial position. Cash flows are included in the cash flow statement on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the Australian Taxation Office are classified as operating cash flows.

### r. Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### s. Principles of consolidation

The consolidated entity's financial statements comprise consolidated accounts of the Bank and its controlled entities. The effects of intercompany balances, transactions and unrealised profits arising between the controlled entities and the Bank are eliminated on consolidation.

### t. Impairment of assets

At each reporting date the Bank assesses whether there is any indication that individual assets are impaired. Where impairment indicators exist, recoverable amount is determined and impairment losses are recognised in the profit or loss where the asset's carrying value exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where it is not possible to estimate recoverable amount for an individual asset, recoverable amount is determined for the cash-generating unit to which the asset belongs.

### u. Accounting estimates and judgements

Management have made judgements when applying the Bank's accounting policies with respect to:

- i. Derecognition of loans assigned to a special purpose vehicle used for securitisation purposes – refer Note 37.

Management have made critical accounting estimates when applying the Bank's accounting policies with respect to impairment provisions for loans – refer Note 11. The useful life of the Banks Investment in Chelsea Wealth Management Pty Ltd has been calculated at 16 years.

### v. Lease receivables

Leases are classified as either finance leases or operating leases. Under finance lease, substantially all the risks and rewards incidental to legal ownership are transferred to the lessee. Under operating lease lessor retains substantially all the risks and rewards of ownership of the leased assets.

As a lessor, the assets the Bank has leased out under finance leases are recognised as loans and advances on the Balance sheet at an amount equal to the net investment in the lease. Finance lease income reflects a constant periodic return on this net investments and is recognised within interest income in the income statement.

The assets the Bank has leased out under operating leases continue to be recognised on the Balance Sheet as property and equipment and are depreciated accordingly. Operating lease revenue is recognised in the income statement on a straight line basis over the lease term.

### w. Business combinations

The Bank applies the acquisition method in accounting for business combinations. Under the Financial Sector (Transfer of Business) Act 1999, all the assets and liabilities of the transferring body, wherever those assets and liabilities are located, become (respectively) assets and liabilities of the receiving body without any transfer, conveyance or assignment.

Police Bank recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquirer's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

Goodwill (if applicable) is stated after separate recognition of any identifiable intangible assets. It is calculated as the excess of the sum of (a) fair value of consideration transferred, (b) the recognised amount of any non-controlling interest in the acquiree and (c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets.

Where the fair values of identifiable net assets exceed the sum calculated above, the excess amount is recognised directly in equity. Acquisition costs are expensed as incurred.

### x. Non-current assets available for sale

Non-current assets are classified as available for sale if they are available for immediate sale in their present condition subject only to the customary sales terms of such assets and their sale is considered highly probable. For a sale to be highly probable, management must be committed to a sales plan and actively looking for a buyer. Furthermore, the assets must be actively marketed at a reasonable sales price in relation to their current fair value and the sale should be expected to be completed within one year.

Non-current assets which meet the criteria available for sale classification are measured at the lower of their carrying amount and fair value less costs to sell and are presented within Non-current assets in the balance sheet. Impairment allowances on non-current asset available for sale are recognised in the income statement for the period in which the allowances were made. Depreciation is not charged on assets classified to this category.

### y. New standards applicable for the current year

There were no new or revised accounting standards applicable for financial years commencing from 1 July 2017 that had any significant impact on the financial statements of Police Bank.

# Notes to the accounts

For the year ended 30 June 2018

## z. New or emerging standards not yet mandatory

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2018 reporting period. Police Bank's assessment of the impact of these new standards and interpretations is set out below. Changes that are not likely to impact the financial report of the Police Bank have not been reported.

AASB reference	Nature of Change	Application Date	Impact on Initial Application
<b>AASB 9 Financial Instruments (December 2014)</b>	The new standard replaces AASB 139 and supersedes AASB 9 versions previously issued in December 2009 and December 2010. It amends the requirements for classification and measurement of financial assets. AASB 9 requirements regarding hedge accounting represent a substantial overhaul of hedge accounting that enable entities to better reflect their risk management activities in the financial statements. Furthermore, AASB 9 introduces a new impairment model based on expected credit losses. Recognition of credit losses are to no longer be dependent on Police Bank first identifying a credit loss event. Police Bank will consider a broader range of information when assessing credit risk and measuring expected credit losses including past experience of historical losses for similar financial instruments.	<b>Periods beginning on or after 1 January 2018</b>	Police Bank has carried out a preliminary assessment of the impact of the new standard. The classification and measurement of financial assets is expected to remain largely unchanged with HTM investments to be reclassified to amortised cost and FVOCI categories and the AFS investments reclassified as FVOCI. The requirements for general hedge accounting have been simplified for hedge effectiveness testing and are not expected to impact materially on the Bank based, on its existing interest rate swap contracts. The new expected loss impairment model will in future require a more timely recognition of expected credit losses (ECL). In particular the new standard requires the reporting entity to assess the ECL according to the credit risk at origination. As well as throughout the life of the loan facilities, at an amount equivalent to the lifetime ECL. The Bank has already performed preliminary assessment of the impact on the transition to applying AASB 9. The assessment is based on the historical Probability of Default, and Loss Given Default, calculated over the expected life of the loan portfolio. As a result, the expected losses calculation is lower than the reserve set aside by the Bank.
<b>AASB 15 Revenue from Contracts with Customers</b>	Revenue from financial instruments is not covered by this new Standard, but AASB 15 establishes a new revenue recognition model for other types of Revenue. AASB 15 is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard replaces AASB 118 Revenue, AASB 111 Construction Contracts and related revenue interpretations.	<b>Periods beginning on or after 1 January 2018</b>	Based upon a preliminary assessment, the Standard is not expected to have a material impact upon the transactions and balances recognised when it is first adopted, as most of the Bank's revenue arises from the provision of financial services which are governed by AASB 9 Financial Instruments. Few revenue transactions of Police Bank are impacted by the new standard.
<b>AASB 16 Leases Replaces AASB 17</b>	AASB 16: replaces AASB 117 Leases and some lease-related Interpretations; requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value asset leases; provides new guidance on the application of the definition of lease and on sale and lease back accounting; and requires new and different disclosures about leases.	<b>Periods beginning on or after 1 January 2019</b>	Based on a preliminary assessment, The Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements.
<b>Transfers of Investment Property (Amendments to IAS 40).</b>	The amendments clarify that transfers to, or from, investment property are required when, and only when, there is a change in use of property supported by evidence. The amendments also re-characterise the list of circumstances appearing in IAS 40.57 (a) – (d) as a non-exhaustive list of examples of evidence that a change in use has occurred. In addition, the IASB has clarified that a change in management's intent, by itself, does not provide sufficient evidence that a change in use has occurred. Evidence of a change in use must be observable.	<b>1 January 2018</b>	When these amendments are first adopted for the year ending 30 June 2019 there will be no material impact on the financial statements.

## Notes to the accounts

For the year ended 30 June 2018

### 2. Statement of Profit or Loss and Other Comprehensive Income

#### a. Analysis of Interest Revenue

	CONSOLIDATED		POLICE BANK	
	2018	2017	2018	2017
	\$	\$	\$	\$
<b>Category of Interest Bearing Assets</b>				
Cash – Deposit	417,078	354,802	417,078	354,802
Receivables from Financial Institutions	7,086,128	7,299,613	7,086,128	7,299,613
Loans and Advances	67,054,428	61,336,902	67,054,428	61,336,902
<b>Total</b>	<b>74,557,634</b>	<b>68,991,317</b>	<b>74,557,634</b>	<b>68,991,317</b>

#### b. Analysis of Interest Expense

	CONSOLIDATED		POLICE BANK	
	2018	2017	2018	2017
	\$	\$	\$	\$
<b>Category of Interest Bearing Liabilities</b>				
Member Deposits	27,937,519	25,392,888	27,937,519	25,392,888
Overdraft	3,188	40,640	3,188	40,640
Others	3,146,938	2,838,447	3,146,938	2,838,447
<b>Total</b>	<b>31,087,645</b>	<b>28,271,975</b>	<b>31,087,645</b>	<b>28,271,975</b>

### 3. Profit from Ordinary Activities - Revenue

	CONSOLIDATED		POLICE BANK	
	2018	2017	2018	2017
	\$	\$	\$	\$
Dividend Revenue	316,897	532,544	976,897	1,189,344
<b>Fee and Commission Revenue</b>				
- Loan Fee Income	1,726,097	1,519,062	1,726,097	1,519,062
- Other Fee Income	2,326,768	2,489,345	2,326,768	2,489,345
- Insurance Commissions	3,286,378	3,287,567	3,286,378	3,287,567
- Other Commissions	3,789,350	3,570,262	550,229	596,265
Bad Debts Recovered	119,985	85,770	119,985	85,770
<b>Total Revenue from Ordinary Activities</b>	<b>11,565,475</b>	<b>11,484,550</b>	<b>8,986,354</b>	<b>9,167,353</b>
<b>Other Revenue</b>				
- Other	90,944	132,767	90,944	132,767
<b>Total Revenue from Other Activities</b>	<b>90,944</b>	<b>132,767</b>	<b>90,944</b>	<b>132,767</b>
<b>Total Revenue from Ordinary and Other Activities</b>	<b>11,656,419</b>	<b>11,617,317</b>	<b>9,077,298</b>	<b>9,300,120</b>

# Notes to the accounts

For the year ended 30 June 2018

## 4. Profit from Ordinary Activities - Expenses

### a. Loan Impairment Losses

	CONSOLIDATED		POLICE BANK	
	2018	2017	2018	2017
	\$	\$	\$	\$
Increase/(decrease) in provision for impairment	42,186	129,976	42,186	129,976
Bad Debts written off directly against profit	613,205	380,605	613,205	380,605
<b>Total Impairment Losses</b>	<b>655,391</b>	<b>510,581</b>	<b>655,391</b>	<b>510,581</b>

### b. Other Prescribed Expense Disclosures

	CONSOLIDATED		POLICE BANK	
	2018	2017	2018	2017
	\$	\$	\$	\$
<b>Auditor's Remuneration</b>				
- Audit Fees: Grant Thornton	198,842	152,597	198,842	152,597
- Other Services	24,739	38,571	15,839	17,771
<b>Total</b>	<b>223,581</b>	<b>191,168</b>	<b>214,681</b>	<b>170,368</b>
<b>Profit/(loss) on disposal of assets</b>				
- Property, Plant, Equipment and Leasehold Improvements	(81,876)	(12,332)	(57,690)	(12,332)
<b>Net movement in provision for Depreciation</b>				
- Buildings	360,050	355,467	360,050	355,467
- Plant and Equipment	751,677	1,350,548	721,691	1,328,155
- Leasehold Improvements	366,713	341,001	358,656	310,937
- Intangible Assets	790,460	429,917	85,126	47,517
<b>Total</b>	<b>2,268,900</b>	<b>2,476,933</b>	<b>1,525,523</b>	<b>2,042,076</b>
<b>Other Expense</b>				
- Supervision Levy	84,443	75,351	84,443	75,351
- Superannuation	1,849,753	1,656,555	1,702,109	1,495,730
<b>Total</b>	<b>1,934,196</b>	<b>1,731,906</b>	<b>1,786,552</b>	<b>1,571,081</b>

## Notes to the accounts

For the year ended 30 June 2018

### 5. Income Tax

a. The prima facie tax payable on operating profit is reconciled to the income tax expense in the account as follows

	CONSOLIDATED		POLICE BANK	
	2018	2017	2018	2017
	\$	\$	\$	\$
Prima facie tax payable on operating profit before income tax at 30%	3,632,793	3,636,675	3,680,973	3,603,543
Non-deductable expenditure	81,281	(48,263)	81,281	(48,263)
Building depreciation	106,640	106,640	106,640	106,640
Amortisation	211,600	114,720	-	-
Imputation credit	125,134	152,916	125,134	152,916
Rebate on fully franked dividends	(219,112)	(312,679)	(417,112)	(509,719)
Deduction not allowed in accounting expenses	12,939	27,751	-	-
Under/Over provision of Income Tax	(280,651)	152,241	(280,651)	183,295
<b>Total</b>	<b>3,670,624</b>	<b>3,830,001</b>	<b>3,296,265</b>	<b>3,488,412</b>

b. Income tax expense comprises amounts

	CONSOLIDATED		POLICE BANK	
	2018	2017	2018	2017
	\$	\$	\$	\$
Provision for income tax attributable to current year taxable income	3,717,302	3,498,087	3,342,943	3,125,444
Movement in future income tax benefit	231,122	86,595	231,122	86,595
Movement in deferred tax liability	2,851	93,078	2,851	93,078
Under/Over provision of Income Tax	(280,651)	152,241	(280,651)	183,295
<b>Total</b>	<b>3,670,624</b>	<b>3,830,001</b>	<b>3,296,265</b>	<b>3,488,412</b>

c. Franking Credits

	CONSOLIDATED		POLICE BANK	
	2018	2017	2018	2017
	\$	\$	\$	\$
Franking credits held by the Bank after adjusting for franking credits that will arise from payment of income tax payable as at 30 June	70,845,134	66,252,526	70,637,521	66,184,378



# Notes to the accounts

For the year ended 30 June 2018

## 6. Cash and Liquid Assets

	CONSOLIDATED		POLICE BANK	
	2018	2017	2018	2017
	\$	\$	\$	\$
Cash on hand	3,356,841	2,976,043	2,873,358	2,517,143
Deposits at call	24,005,615	38,018,269	24,005,614	38,018,269
Cash at Bank	11,789,907	4,423,977	11,789,907	4,423,977
Security Deposits	51,439	51,439	51,439	51,439
<b>Total</b>	<b>39,203,802</b>	<b>45,469,728</b>	<b>38,720,318</b>	<b>45,010,828</b>

## 7. Receivables Due from other Financial Institutions

	CONSOLIDATED		POLICE BANK	
	2018	2017	2018	2017
	\$	\$	\$	\$
Deposits - Term	45,900,000	24,000,000	45,900,000	24,000,000

## 8. Receivables

	CONSOLIDATED		POLICE BANK	
	2018	2017	2018	2017
	\$	\$	\$	\$
Interest Receivable on deposits with other Financial Institutions	767,347	793,158	767,347	793,158
Prepayments	794,078	828,546	794,078	828,546
Sundry Debtors	2,804,583	2,523,841	2,527,325	2,239,083
<b>Total</b>	<b>4,366,008</b>	<b>4,145,545</b>	<b>4,088,750</b>	<b>3,860,787</b>

## 9. Investment Securities

	CONSOLIDATED		POLICE BANK	
	2018	2017	2018	2017
	\$	\$	\$	\$
Bank Bills and Certificate of Deposits	85,462,984	100,379,273	85,462,984	100,379,273
Floating Rate Notes	87,266,499	85,185,440	87,266,499	85,185,440
Subordinated Debt	1,000,000	11,160,000	1,000,000	11,160,000
<b>Total</b>	<b>173,729,483</b>	<b>196,724,713</b>	<b>173,729,483</b>	<b>196,724,713</b>

Subordinated Debt – On 29th August 2014 the Bank invested in subordinated notes issued by ME Bank. The rights of the noteholders are subordinated to the claims of all creditors (including depositors) of ME Bank. The notes have quarterly interest payable in arrears with a final maturity date of 29th August 2024. ME Bank may redeem the notes on 29th August 2019 subject to prior approval from APRA.

## Notes to the accounts

For the year ended 30 June 2018

### 10. Loans and Advances

#### a. Amount Due comprises

	CONSOLIDATED		POLICE BANK	
	2018	2017	2018	2017
	\$	\$	\$	\$
Overdrafts and Revolving Credit Loans	38,723,793	39,937,330	38,723,793	39,937,330
Term Loans	1,558,230,232	1,332,811,444	1,558,230,232	1,332,811,444
	1,596,954,025	1,372,748,774	1,596,954,025	1,372,748,774
Less: Provision for Impaired Loans	(585,457)	(543,270)	(585,457)	(543,270)
Less: Unamortised Loan Origination Fees	(2,061,399)	(1,930,697)	(2,061,399)	(1,930,697)
Plus: Amortised Loan Transaction Costs	(7,529)	2,364	(7,529)	2,364
<b>Net Loans and Advances</b>	<b>1,594,299,640</b>	<b>1,370,277,171</b>	<b>1,594,299,640</b>	<b>1,370,277,171</b>

#### b. Credit Quality - Security held against Loans

	CONSOLIDATED		POLICE BANK	
	2018	2017	2018	2017
	\$	\$	\$	\$
Secured by Mortgage	1,440,907,099	1,230,568,450	1,440,907,099	1,230,568,450
Secured Other	66,330,782	61,553,439	66,330,782	61,553,439
Unsecured	89,716,144	80,626,885	89,716,144	80,626,885
<b>Total</b>	<b>1,596,954,025</b>	<b>1,372,748,774</b>	<b>1,596,954,025</b>	<b>1,372,748,774</b>

It is not practicable to value all collateral as at the balance date is due to a variety of assets and conditions. A breakdown of the quantity of the residential mortgage security on a portfolio basis is as follows.

Security held as mortgage against real estate is on the basis of:

	CONSOLIDATED		POLICE BANK	
	2018	2017	2018	2017
	\$	\$	\$	\$
- loan to valuation ratio of less than 80%;	1,105,484,524	902,602,955	1,105,484,524	902,602,955
- loan to valuation ratio of more than 80% but mortgage insured; and	286,815,450	276,543,815	286,815,450	276,543,815
- loan to valuation ratio of more than 80% and not mortgage insured.	48,607,125	51,421,680	48,607,125	51,421,680
<b>Total</b>	<b>1,440,907,099</b>	<b>1,230,568,450</b>	<b>1,440,907,099</b>	<b>1,230,568,450</b>

# Notes to the accounts

For the year ended 30 June 2018

## c. Concentration of Loans

	CONSOLIDATED		POLICE BANK	
	2018	2017	2018	2017
	\$	\$	\$	\$
(i) Individual loans which exceed 10% of Member Funds in aggregate amount to \$0.00 (2017 \$0.00)	-	-	-	-
(ii) Loan purpose dissection:				
- Residential	1,236,170,636	1,043,029,677	1,236,170,636	1,043,029,677
- Personal	143,597,156	131,549,477	143,597,156	131,549,477
- Commercial*	206,645,678	187,538,766	206,645,678	187,538,766
- Finance Leases	10,540,555	10,630,854	10,540,555	10,630,854
<b>Total</b>	<b>1,596,954,025</b>	<b>1,372,748,774</b>	<b>1,596,954,025</b>	<b>1,372,748,774</b>

\*These are primarily loans to individuals secured by residential mortgage.

## Geographical Areas

	Housing	Personal	Credit Card	Overdraft	Business	Total
	\$	\$	\$	\$	\$	\$
Sydney City	287,469,645	22,017,165	5,139,571	1,581,729	450,082	316,658,192
Western Suburbs	235,375,095	16,668,145	3,811,863	921,810	-	256,776,913
Australian Capital Territory	203,709,051	16,947,912	3,256,259	1,119,775	36,115	225,069,112
Illawarra	180,424,547	9,173,454	2,191,427	623,338	38,866	192,451,632
Hunter Valley	129,047,361	9,245,041	1,838,129	689,609	70,871	140,891,011
NSW North Coast	93,975,041	9,806,930	1,487,073	931,755	-	106,200,799
Tasmania	75,098,946	4,009,902	-	704,776	1,307,311	81,120,935
Central Coast	71,449,895	8,172,843	1,385,438	501,030	-	81,509,206
Other States	58,780,737	7,042,253	1,817,177	956,491	-	68,596,658
NSW Country	47,684,202	5,637,087	975,942	308,424	-	54,605,655
Blue Mountains	42,882,836	2,107,865	495,546	193,674	-	45,679,921
South Coast	15,015,713	1,394,916	272,757	170,050	-	16,853,436

## 11. Provision on Impaired Loans

### a. Total Provision Comprises

	CONSOLIDATED		POLICE BANK	
	2018	2017	2018	2017
	\$	\$	\$	\$
Specific Provision	22,300	-	22,300	-
Collective Provision	563,157	543,270	563,157	543,270
<b>Total</b>	<b>585,457</b>	<b>543,270</b>	<b>585,457</b>	<b>543,270</b>

## Notes to the accounts

For the year ended 30 June 2018

### b. Movement in Specific Provision

	CONSOLIDATED		POLICE BANK	
	2018	2017	2018	2017
	\$	\$	\$	\$
Balance at the beginning of the year	543,270	413,294	543,270	413,294
Add: Transfers from Income Statement	-	-	-	-
Deduct: Bad debts written off against provision	-	-	-	-
Add: Transfers to Income Statement	42,187	129,976	42,187	129,976
<b>Balance at end of year</b>	<b>585,457</b>	<b>543,270</b>	<b>585,457</b>	<b>543,270</b>

### c. Impaired Loans Written Off

	CONSOLIDATED		POLICE BANK	
	2018	2017	2018	2017
	\$	\$	\$	\$
Amount written off against the provision for impaired loans	-	-	-	-
Amounts written off directly to expense	613,205	380,605	613,205	380,605
<b>Total bad debts</b>	<b>613,205</b>	<b>380,605</b>	<b>613,205</b>	<b>380,605</b>
Bad debts recovered in the period	119,985	85,770	119,985	85,770

### d. Impaired Loan Disclosures Impaired Loans as at Balance Date

	CONSOLIDATED		POLICE BANK	
	2018	2017	2018	2017
	\$	\$	\$	\$
Balance of the impaired loans	882,107	926,542	882,107	926,542
Estimated value of loans which is secured	166,029	460,659	166,029	460,659
<b>Loans with repayments Past Due but not impaired (due to security held)</b>				
- Real estate	1,624,075	1,417,881	1,624,075	1,417,881
- Other	-	-	-	-

# Notes to the accounts

For the year ended 30 June 2018

Analysis of loans that are impaired or potentially impaired based on age of repayments outstanding.

	Carrying Value	Provision	Carrying Value	Provision
	2018	2018	2017	2017
	\$	\$	\$	\$
<b>Mortgage Insured</b>	6,940,151	-	3,961,066	-
30 up to 89 days in arrears	893,335	-	561,921	-
90 to 181 days in arrears	219,042	87,617	115,232	185,287
182 to 272 days in arrears	113,434	68,060	112,352	67,411
273 to 364 days in arrears	69,165	55,332	45,938	36,750
365 days and over in arrears	167,721	167,722	90,833	164,634
Over limit facilities over 14 days	312,745	206,726	158,078	89,188
<b>Total</b>	<b>8,715,593</b>	<b>585,457</b>	<b>5,045,420</b>	<b>543,270</b>

The impaired loans are generally not secured against residential property. Some impaired loans are secured by bill of sale over motor vehicles or other types of assets. It is not practicable to determine the fair value of all collateral as at the balance date due to the variety of assets and conditions of those assets.

## The Key assumptions in determining the provision for impairment

In the course of the preparation of the annual report, the Bank has determined the likely impairment loss on loans which have not maintained the loan repayments in accordance with the loan contract, or where there is other evidence of potential impairment such as industrial restructuring, job losses or economic circumstances. In identifying the impairment likely from these events, the Bank is required to estimate the potential impairment using the length of time the loan is in arrears and the historical losses arising in the past years. Given the relatively small number of impaired loans, the circumstances may vary for each loan over time resulting in higher or lower impairment losses. An estimate is based on the period of impairment.

	2018			2017		
	Carrying Value	Value of impaired loans	Provision for impairment	Carrying Value	Value of impaired loans	Provision for impairment
	\$	\$	\$	\$	\$	\$
<b>Mortgages</b>	6,940,150	1,624,075	-	3,961,066	508,156	212,995
Personal	1,145,312	451,057	322,338	721,611	327,095	221,020
Credit Cards	357,852	138,558	138,031	279,511	55,559	74,330
Overdrafts	391,991	107,255	107,451	286,311	35,732	34,925
Finance Leases	44,093	44,093	17,637	-	-	-
<b>Total to Natural Persons</b>	<b>8,879,398</b>	<b>2,365,038</b>	<b>585,457</b>	<b>5,248,499</b>	<b>926,542</b>	<b>543,270</b>
Corporate Borrowers	-	-	-	-	-	-
<b>Total</b>	<b>8,879,398</b>	<b>2,365,038</b>	<b>585,457</b>	<b>5,248,499</b>	<b>926,542</b>	<b>543,270</b>

## Notes to the accounts

For the year ended 30 June 2018

### 12. a. Available for Sale Investments

	CONSOLIDATED		POLICE BANK	
	2018	2017	2018	2017
	\$	\$	\$	\$
Cuscal Member Shares (i)	3,922,517	3,759,137	3,922,517	3,759,137
TransAction Solutions Pty Ltd (ii) -Class A shares-	5,589	-	5,589	-
PCU 2009-1 Trust (iii)	19,175,867	7,573,534	19,175,867	7,573,534
<b>Total</b>	<b>23,103,973</b>	<b>11,332,671</b>	<b>23,103,973</b>	<b>11,332,671</b>

(i) The shareholding in Cuscal is measured at its cost value in the Statement of Financial Position. This company supplies services to the member organisations which are all Mutual Banks and Credit Unions. The Bank holds shares in Cuscal to enable the Bank to receive essential banking services. The shares are able to be traded but within a market limited to other mutual ADI's. The volume of shares traded in the shares is low with few transactions in the past 3 years.

(ii) The shareholding in TransAction Solutions Pty Ltd (TAS) is measured at cost as its cost value in the Statement of financial Position. TAS is contracted to manage the general information technology control environment that supports the core Ultracs software application.

Management have used the unobservable inputs to assess the fair value of the shares. The financial reports of Cuscal and TAS respectively record net tangible asset backing of these shares exceeding their cost value. Based on the net assets, any fair value determination on these shares is likely to be greater than their cost value, but due to the absence of a ready market, a market value is not able to be determined readily.

Management has determined that the cost value of shares is a reasonable approximation of fair value based on the likely value available on a sale and the low volume of trading in shares.

The Bank is not intending to dispose of these shares.

(iii) The PCU 2009-1 Trust is a special purpose vehicle that issues securities under an internal securitisation program for the purpose of contingency liquidity management. The Bank's risk management has been strengthened with the implementation of the 're-purchase' facility with the Reserve Bank of Australia providing greater access to funds and a higher level of security for the organisation.

### 12. b. Investment in Subsidiary

	CONSOLIDATED		POLICE BANK	
	2018	2017	2018	2017
	\$	\$	\$	\$
Investment in Subsidiary	-	-	5,403,458	5,274,117
<b>Total</b>	<b>-</b>	<b>-</b>	<b>5,403,458</b>	<b>5,274,117</b>

### 12. c. Non-current Assets Available for Sale

	CONSOLIDATED		POLICE BANK	
	2018	2017	2018	2017
	\$	\$	\$	\$
Land and buildings	1,497,575	-	1,497,575	-
<b>Total</b>	<b>1,497,575</b>	<b>-</b>	<b>1,497,575</b>	<b>-</b>

# Notes to the accounts

For the year ended 30 June 2018

## 13. Property, Plant and Equipment

### a. Fixed assets

	CONSOLIDATED		POLICE BANK	
	2018	2017	2018	2017
	\$	\$	\$	\$
Land at cost	5,386,053	5,589,354	5,386,053	5,589,354
Buildings at cost	12,190,950	12,376,510	12,190,950	12,376,510
Less: Provisions for depreciation	(1,028,454)	(1,004,691)	(1,028,454)	(1,004,691)
<b>Total Buildings</b>	<b>11,162,496</b>	<b>11,371,819</b>	<b>11,162,496</b>	<b>11,371,819</b>
<b>Total Land and Buildings</b>	<b>16,548,549</b>	<b>16,961,173</b>	<b>16,548,549</b>	<b>16,961,173</b>
Plant and Equipment at cost	9,143,614	10,639,135	8,994,137	10,465,852
Less: Provision for depreciation	(4,949,719)	(6,043,726)	(4,883,245)	(5,915,972)
<b>Total Plant and Equipment</b>	<b>4,193,895</b>	<b>4,595,409</b>	<b>4,110,892</b>	<b>4,549,880</b>
Capitalised leasehold improvements at cost	3,094,269	2,695,825	3,031,115	2,546,288
Less: Provision for amortisation	(2,362,592)	(2,061,316)	(2,305,973)	(1,947,317)
<b>Total Capitalised Leasehold Improvements</b>	<b>731,677</b>	<b>634,509</b>	<b>725,142</b>	<b>598,971</b>
<b>Closing Balance 30 June</b>	<b>21,474,121</b>	<b>22,191,091</b>	<b>21,384,583</b>	<b>22,110,024</b>

### b. Movement in the asset balances during the year were:

	2018			2017		
	Property	Plant & Equipment	Leasehold Improvements	Property	Plant & Equipment	Leasehold Improvements
	\$	\$	\$	\$	\$	\$
Opening Balance 1 July	16,961,173	4,595,409	634,509	17,316,640	5,465,726	883,648
Add: Purchases in the year	-	496,896	488,067	-	589,070	100,241
Add: Transfer of business from merger	1,445,001	107,975	-	-	-	-
Less: Transfer to assets available for sale	(1,497,575)	-	-	-	-	-
Less: Disposal of assets	-	(197,018)	-	-	(104,886)	-
Gain/(Loss) on sale	-	(57,690)	(24,186)	-	(3,953)	(8,379)
Depreciation charge	(360,050)	(751,677)	(366,713)	(355,467)	(1,350,548)	(341,001)
<b>Closing Balance 30 June</b>	<b>16,548,549</b>	<b>4,193,895</b>	<b>731,677</b>	<b>16,961,173</b>	<b>4,595,409</b>	<b>634,509</b>

## Notes to the accounts

For the year ended 30 June 2018

### 14. Intangible Assets

	CONSOLIDATED		POLICE BANK	
	2018	2017	2018	2017
	\$	\$	\$	\$
Computer Software	981,136	408,998	981,136	408,998
Less: Provision for Amortisation	(372,987)	(287,861)	(372,987)	(287,861)
Acquired Customer Relationships	6,527,128	6,365,451	-	-
Less: Provision for Amortisation	(1,517,775)	(812,441)	-	-
<b>Total</b>	<b>5,617,502</b>	<b>5,674,147</b>	<b>608,149</b>	<b>121,137</b>
<b>Movement in the intangible asset balances during the year were:</b>				
Opening Balance 1 July	5,674,147	5,337,945	121,137	90,535
Add: Purchases in the year	510,310	78,119	510,310	78,119
Add: Transfer of business from merger	61,828	-	61,828	-
Add: Purchase of Customer Contracts	161,677	688,000	-	-
Less: Disposal of Assets	-	-	-	-
Less: Loss on sale	-	-	-	-
Amortisation charge	(790,460)	(429,917)	(85,126)	(47,517)
<b>Closing Balance 30 June</b>	<b>5,617,502</b>	<b>5,674,147</b>	<b>608,149</b>	<b>121,137</b>

### 15. Taxation Assets

	CONSOLIDATED		POLICE BANK	
	2018	2017	2018	2017
	\$	\$	\$	\$
Deferred Tax Asset	1,705,839	1,474,717	1,705,839	1,474,717
<b>Deferred Tax Asset Comprises:</b>				
- Provision for Impairment on Loans	198,102	162,981	198,102	162,981
- Deferred loan Costs	50,442	-	50,442	-
- Provision for Staff Entitlements	1,069,035	990,685	1,069,035	990,685
- Audit Accrual	29,913	28,935	29,913	28,935
- Other	358,347	292,116	358,347	292,116
<b>Total</b>	<b>1,705,839</b>	<b>1,474,717</b>	<b>1,705,839</b>	<b>1,474,717</b>



# Notes to the accounts

For the year ended 30 June 2018

## 16. Amounts Payable to Other Financial Institutions

	CONSOLIDATED		POLICE BANK	
	2018	2017	2018	2017
	\$	\$	\$	\$
Overdraft Secured (Note 32)	-	-	-	-
Negotiable Certificate of Deposit	75,571,332	48,160,357	75,571,332	48,160,357
Medium Term Note	15,000,000	60,000,000	15,000,000	60,000,000
<b>Total</b>	<b>90,571,332</b>	<b>108,160,357</b>	<b>90,571,332</b>	<b>108,160,357</b>

## 17. Deposits

	CONSOLIDATED		POLICE BANK	
	2018	2017	2018	2017
	\$	\$	\$	\$
<b>Member Deposits:</b>				
- at call	823,706,433	710,357,669	823,706,433	710,357,669
- term	775,135,566	658,279,559	775,135,566	658,279,559
	1,598,841,999	1,368,637,228	1,598,841,999	1,368,637,228
Withdrawable Shares	340,178	298,060	340,178	298,060
<b>Total</b>	<b>1,599,182,177</b>	<b>1,368,935,288</b>	<b>1,599,182,177</b>	<b>1,368,935,288</b>

## Concentration of Risk

- (i) There are no Members who individually have deposits which represent 10% or more of the total liabilities of the Bank.
- (ii) Details of classes of deposits which represent 10% or more of shareholders' equity of the Bank are as follows:

	CONSOLIDATED		POLICE BANK	
	2018	2017	2018	2017
	\$	\$	\$	\$
<b>Industry Group</b>				
State Government	550,007,163	513,527,169	550,007,163	513,527,169
Federal Government	157,966,942	139,305,668	157,966,942	139,305,668

## 18. Creditors and Other Liabilities

	CONSOLIDATED		POLICE BANK	
	2018	2017	2018	2017
	\$	\$	\$	\$
Creditors and Accruals	10,361,660	12,023,844	10,208,960	11,966,494
Interest Payable on Deposits	6,503,448	4,975,885	6,503,448	4,975,885
<b>Total</b>	<b>16,865,108</b>	<b>16,999,729</b>	<b>16,712,408</b>	<b>16,942,379</b>

## Notes to the accounts

For the year ended 30 June 2018

### 19. Provisions

	CONSOLIDATED		POLICE BANK	
	2018	2017	2018	2017
	\$	\$	\$	\$
Employee Benefits	2,276,501	2,074,209	2,178,311	1,903,226
Leasehold Make Good	750,000	750,000	750,000	750,000
Other	459,162	17,192	459,162	17,192
<b>Total</b>	<b>3,485,663</b>	<b>2,841,401</b>	<b>3,387,473</b>	<b>2,670,418</b>
<b>Movement in the other provision balances:</b>				
Opening Balance 1 July	17,192	13,069	17,192	13,069
Less: Paid	(21,991)	(17,025)	(21,991)	(17,025)
Add: Merger provision	450,000	-	450,000	-
Liability increase in current year	13,961	21,148	13,961	21,148
<b>Closing Balance 30 June</b>	<b>459,162</b>	<b>17,192</b>	<b>459,162</b>	<b>17,192</b>

### 20. Taxation Liabilities/Assets

	CONSOLIDATED		POLICE BANK	
	2018	2017	2018	2017
	\$	\$	\$	\$
Provisions for Income tax/(Receivable)	(349,367)	(311,476)	(451,427)	(418,067)
Provision for Deferred Income Tax	774,577	771,726	774,577	771,726
Other	116,003	144,193	(7,508)	22,838
<b>Total Taxation Liabilities/(Assets)</b>	<b>541,213</b>	<b>604,443</b>	<b>315,642</b>	<b>376,497</b>
<b>Provision for Deferred Income Tax Comprises:</b>				
- Prepayments;	3,276	2,776	3,276	2,776
- Tax allowances relating to Property, Plant & Equipment; and	680,558	694,944	680,558	694,944
- Tax allowances relating to Chelsea Wealth Management Pty Ltd.	74,006	74,006	74,006	74,006
- Other Assets	16,737	-	16,737	-
<b>Total</b>	<b>774,577</b>	<b>771,726</b>	<b>774,577</b>	<b>771,726</b>

### 21. Capital Reserve Account

	CONSOLIDATED		POLICE BANK	
	2018	2017	2018	2017
	\$	\$	\$	\$
Balance 1 July	432,760	412,060	432,760	412,060
Transfer from retained earnings on share redemptions	9,410	20,700	9,410	20,700
<b>Balance 30 June</b>	<b>442,170</b>	<b>432,760</b>	<b>442,170</b>	<b>432,760</b>

# Notes to the accounts

For the year ended 30 June 2018

## a. Share redemption

The accounts represent the amount of redeemable preference shares redeemed by the Bank since 1 July 1999. The Law requires that the redemption of the shares be made out of profits. Since the value of the shares has been paid to members in accordance with the terms and conditions of the share issue, the account represents the amount of profits appropriated to the account.

## b. Issue of shares on transfer of business

The transfer of business from Heritage Isle Credit Union Pty Ltd on the 1st May 2018 resulted in the issue of shares to members transferring to the Bank. The excess value of the shares issued is taken up as a capital value in accordance with accounting standards. The shares held by the members of HICU were effectively cancelled at this time.

## 22. General Reserves For Credit Losses

	CONSOLIDATED		POLICE BANK	
	2018	2017	2018	2017
	\$	\$	\$	\$
General Reserves For Credit Losses	3,206,345	2,740,600	3,206,345	2,740,600
Balance 1 July	2,740,600	2,299,695	2,740,600	2,299,695
Add: Increase (Decrease) transferred from retained earnings	465,745	440,905	465,745	440,905
<b>Balance 30 June</b>	<b>3,206,345</b>	<b>2,740,600</b>	<b>3,206,345</b>	<b>2,740,600</b>

## 23. Governance and Risk Management

The Board of Directors recognise that they are ultimately responsible for the sound and prudent management of the Bank and ensuring that an adequate and effective system of internal controls is established and maintained. Specifically, the Board:

- Establishes a governance structure (Board sub-Committees, management committees, executive responsibilities, risk management and assurance functions);
- Is ultimately responsible for the risk management frameworks and oversees the operation of these by management;
- Sets the risk appetite within which it expects management to operate and approves the Risk Appetite Statement; and
- Establishes and maintains a sound risk management culture by setting the tone at the top.

### Governance

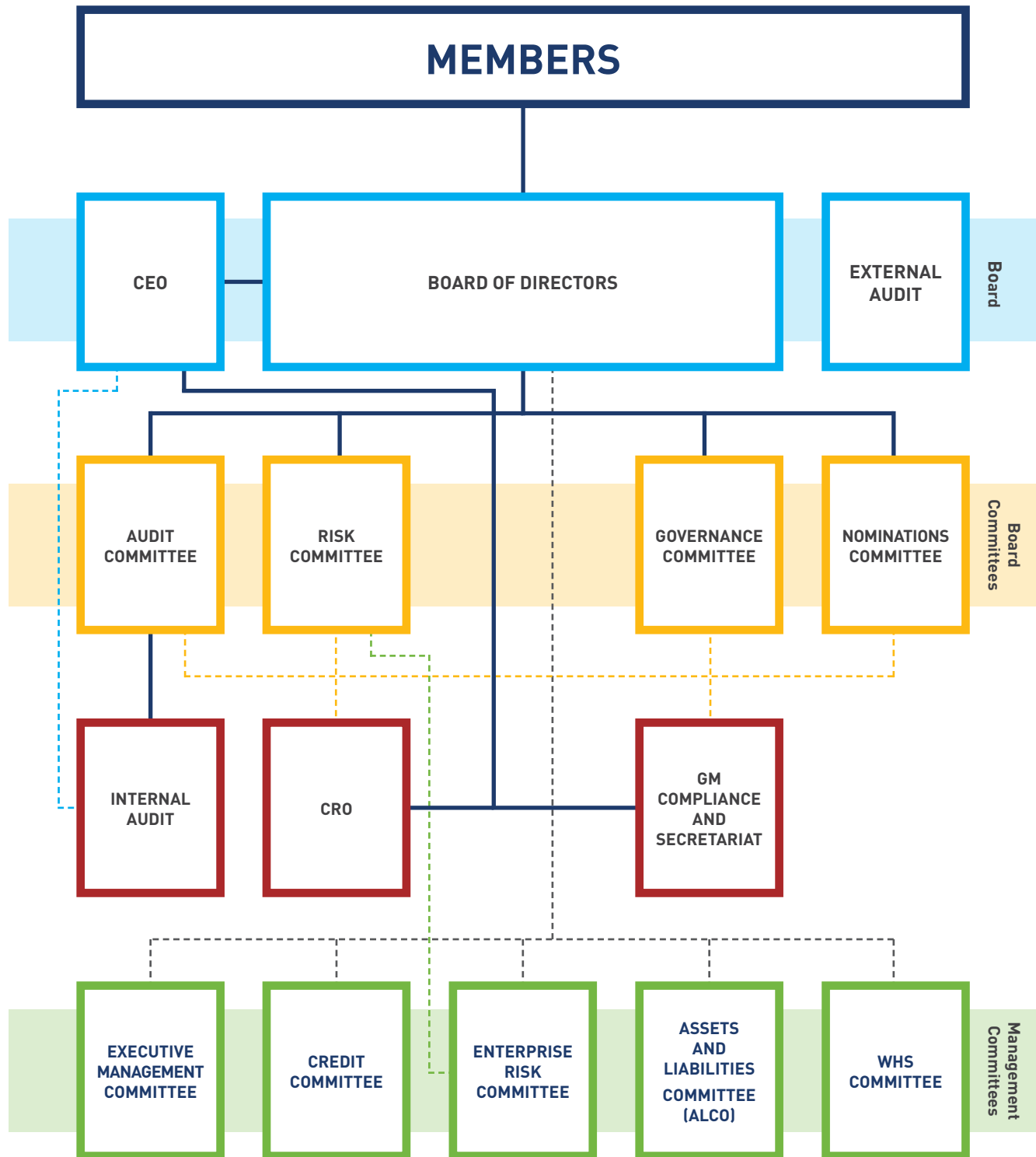
The Board has endorsed a Risk Management Strategy, which forms part of the overall Risk Management Framework. The framework has been developed to suit the risk profile of the Bank.

The Board has established a governance framework that identifies, manages and reports on risk. This is implemented in the Bank as the three lines of defence model with business units and management as the first line (risk owners), risk and compliance as the second line (owns framework and monitors compliance) and internal audit and the respective Board subcommittees as the third line (oversight).

The Board has established separate Governance, Nomination, Risk and Audit Committees each comprising independent Chair and Directors to oversee governance activities; Director and management appointment and remuneration; financial reporting and the effectiveness of audits; and the management and oversight of risk and compliance. The Committees are required to devote time and expertise to these areas over and above the time prescribed in scheduled Board meetings.

## Notes to the accounts

For the year ended 30 June 2018



# Notes to the accounts

For the year ended 30 June 2018

## Board Governance Committee

The Committee assists the Board as follows:

- Board adherence to good corporate governance primarily by fulfilling its obligations as set out by the Australian Prudential Regulation Authority in Australian Prudential Standards CPS 510 and CPS 520;
- Ensuring all Directors and responsible persons are of good character and meet the "Fit and Proper" requirements of the Bank's Fit and Proper Policy;
- Advise the Board in regard to its responsibilities in relation to board renewal;
- Review disputes from Members relating to the Bank's policies, procedures, systems or service delivery, which have been unable to be resolved by Management; and
- To assess the appropriateness of Director and Executive remuneration, and encourage behaviour that supports the long- term financial soundness of the Bank and the risk management framework.

This Committee holds at least two meetings each year.

**Board Risk Committee:** The primary objective of the Risk Committee is to assist the Board with its responsibilities in overseeing the risk governance and compliance of Police Bank and to recommend the risk profile and risk management framework to the Board.

The Risk Committee assists the Board by providing an objective non-executive review of the effectiveness of the Risk Management Framework of the Bank by:

- Providing reasonable assurance to the Board that core business goals and objectives are being achieved in an effective and efficient manner, within an appropriate framework of governance, risk management and internal control;
- Monitoring the adequacy, integrity and effectiveness of the internal control environment and risk management process;
- Reviewing processes established by management to ensure that the requirements of APRA's Prudential Standards and the Corporations Act are being adhered to;
- Monitoring compliance with all other internal, regulatory, prudential, legal, adopted industry and ethical requirements and standards; and
- Forming a view of the risk culture of Police Bank.

The Risk Committee holds at least 4 meetings each year and the Committee periodically monitors the annual risk plan.

**Compliance and Risk teams:** Compliance and Risk have responsibility for developing risk management and compliance policies, systems and processes to facilitate a consistent approach to the identification, assessment and management of risk and compliance for the Bank. The Bank has appointed a qualified Chief Risk Officer (CRO) to head the risk department and a General Manager of Compliance and Secretariat to oversee the compliance and company secretariat functions.

**Board Audit Committee:** The primary objective of the Audit Committee is to assist the Board of Directors in regard to the Board's responsibilities as they relate to:

- Audit obligations (internal & external);
- Financial reporting practices;
- Accounting policies;
- Management and internal controls.

The Audit Committee:

- Oversees and appraise the quality of the audits conducted by both the Internal and External Auditors;
- Reviews and approve the Internal Audit Charter;
- Provides, through regular meetings, a forum for communication between the Board, Senior Management and both the Internal and External Auditors;
- Serves as an independent and objective party to review the financial information presented by management to Members and regulators; and
- Determines the adequacy of the Bank's administrative, operating and accounting controls.

This Committee holds at least 4 meetings each year and the Committee periodically monitors the annual internal audit plan.

**Internal Audit team:** Internal Audit has responsibility for auditing the business (including the risk and compliance functions) in line with the annual Audit Plan approved by the Board Audit Committee.

## Notes to the accounts

For the year ended 30 June 2018

### Risk Management

Police Bank Board has adopted a Risk Management Strategy that sets out its approach to the oversight and management of risks through a comprehensive risk management framework and regularly reviews the soundness and effectiveness of that framework. The framework is designed to identify and manage risk on an ongoing basis.

The Board sets the risk appetite for the Bank, oversees the risk management framework and satisfies itself that the framework is sound by reviewing reports received and monitoring performance. It is the responsibility of management to design and implement the risk management framework and to ensure that the Bank operates within the risk appetite set by the Board.

In determining the risk appetite for the Bank, the Board has determined that the Bank has a low to very low tolerance for risk taking. As a result management is risk aware and has incorporated risk management into strategic planning and decision making to understand and prioritise the management of material business risks. When making a decision to enter into a transaction or pursue a course of action, risks are considered in the context of the risk appetite set by the Board.

Police Bank is committed to maintaining a robust, relevant and good practice risk management framework. As such, the Bank is committed to the ongoing improvement as weaknesses and related improvements are identified. All management (first, second and third lines) are responsible for review and recommending improvements to the frameworks, systems and policies employed by Police Bank to manage risk.

The Bank has the following management committees for managing and reporting on risks for the Bank:

**Executive Management Committee (EXCO):** This management committee meets weekly and is a forum for the Executive Management team to review operations across the Bank, including strategy & direction, project management, performance and insights and enterprise risks across the Bank.

**Credit Committee:** This management committee meets monthly and has responsibility for managing and reporting credit risk exposure. It scrutinises operational reports and monitors exposures against limits determined by the Board. The Credit Committee also determines the credit risk of loans in the banking book, ensures provisioning is accurate and determines controls that need to be in place regarding the authorisation of new loans.

**Enterprise Risk Committee:** This management committee meets monthly and assists the Chief Executive Officer (CEO) and the Executive Management team of Police Bank in fulfilling the responsibilities of the Bank's enterprise-wide risk management framework, including the strategies, policies, standards and systems established by the Board and its Committees to identify, assess, measure and manage its risks facing Police Bank.

**Asset and Liability Committee (ALCO):** This management committee meets monthly and has responsibility for managing interest rate risk exposures, and ensuring that the Treasury and Finance functions adhere to exposure limits as outlined in the policies for interest rate and liquidity risk. The daily scrutiny

of market risk reports is intended to prevent any exposure breaches prior to the monthly review by ALCO.

**Workplace Health & Safety Committee:** This management committee meets at least once per quarter to assist the Bank in fulfilling its responsibility for the development, monitoring and review of health and safety policies, strategies, systems and processes implemented and reported on to EXCO and the Board.

### Financial Risk Management

The risks that the Bank is exposed to include, but are not limited to:

- Credit risk
- Market risk
  - » Interest rate risk
  - » Equity investments
  - » Liquidity risk
- Operational risk

### Credit Committee

The primary objectives of the Credit Committee are to provide assistance to Management and the Board of Directors by monitoring the Bank's Credit Risk Framework and ensuring that the Credit Risk Policy is being adhered to and that all prudential requirements are being met in relation to credit.

A Centralised Credit Team and a dedicated Collections Team implement the Bank's Credit Risk Framework. Large credit exposure facilities above policy limits are overseen by the Credit Committee.

All loan facilities are managed through the monitoring of the scheduled repayments. Accounts where the arrears are over 90 days or overlimit facilities over 14 days, have collective provisions charged against them. Additionally, a collective provision is held to cover any losses where there is objective evidence that losses are present in components of the loans and advances portfolio at the balance sheet date.

Other provisions are taken up on accounts considered doubtful and the status of these loans is reported to the Credit Committee monthly. Arrears are strictly controlled. The size of the loan book is such that it is possible to monitor each individual exposure to evaluate whether specific provisions are necessary and adequate.

### Carrying value

Carrying value is the value on the statement of financial position. Maximum exposure is the value on the statement of financial position plus undrawn facilities consisting of loans approved not advanced, redraw facilities, overdraft facilities, credit card limits and funds held in loans offset accounts. The risk of losses on loans is reduced through the nature and quality of security taken. All loans and facilities are within Australia with the majority held in NSW and ACT.

The Bank has a concentration in retail lending to Members who are predominantly employees in the NSW Police Force and the Australian Federal Police. This concentration is considered acceptable on the basis that the Bank was formed to service these Members, the industry is an essential and stable industry.

# Notes to the accounts

For the year ended 30 June 2018

Should Members leave this industry other private sector opportunities are available.

Credit risk is managed through a structured framework of systems and controls including:

- Document credit risk – Lending principles that are disseminated to all staff involved in the Lending process;
- Documented policies and standards;

- Documented processes for approving and managing lending based on delegations; and

- A series of management reports detailing industry, geographic, and Loan to Value Ratio (LVR) concentrations, along with monitoring non-performing Lending.

Documented policies have been endorsed by the Board to ensure that loans are only made to Members who are capable of meeting loans repayments.

	2018			2017		
	Carrying Value	Off Balance Sheet	Maximum Exposure	Carrying Value	Off Balance Sheet	Maximum Exposure
	\$	\$	\$	\$	\$	\$
Residential	1,236,170,541	56,915,559	1,293,086,100	1,043,029,677	66,062,652	1,109,092,329
Personal	122,738,099	881,866	123,619,965	112,476,092	1,103,228	113,579,320
Credit Cards	22,671,183	29,677,647	52,348,830	21,669,970	27,222,470	48,892,440
Overdrafts	8,728,524	22,032,062	30,760,586	8,034,269	21,757,380	29,791,649
<b>Total to Natural Persons</b>	<b>1,390,308,347</b>	<b>109,507,134</b>	<b>1,499,815,481</b>	<b>1,185,210,008</b>	<b>116,145,730</b>	<b>1,301,355,738</b>
Commercial	206,645,678	-	206,645,678	187,538,766	-	187,538,766
<b>Total</b>	<b>1,596,954,025</b>	<b>109,507,134</b>	<b>1,706,461,159</b>	<b>1,372,748,774</b>	<b>116,145,730</b>	<b>1,488,894,504</b>

## External credit assessment for institution investments

The Bank uses the ratings of reputable ratings agencies to assess the credit quality of all investment exposure, where applicable, using the credit quality assessment scale in APRA prudential guidance AGN 112. The credit quality assessment scale within this standard has been complied with.

The exposure values associated with each credit quality step are as follows:

	2018			2017		
	Carrying value	Past due value	Provision	Carrying value	Past due value	Provision
	\$	\$	\$	\$	\$	\$
<b>Investments with:</b>						
ADIs rated A-1+ to A-1 (short-term)	28,975,751	-	-	38,018,268	-	-
ADIs rated A-2+ or P-2 or F-2 (short-term)	65,617,216	-	-	67,653,777	-	-
ADIs rated A-3 (short-term)	-	-	-	9,945,501	-	-
ADIs rated AA+ to AAA- (long-term)	53,095,357	-	-	47,593,244	-	-
ADIs rated A+ to A (long-term)	33,570,185	-	-	17,592,195	-	-
ADIs rated BBB+ to Baa2+ (long-term)	44,476,589	-	-	57,779,997	-	-
ADIs unrated	17,900,000	-	-	20,160,000	-	-
<b>Total</b>	<b>243,635,098</b>	<b>-</b>	<b>-</b>	<b>258,742,982</b>	<b>-</b>	<b>-</b>

## Notes to the accounts

For the year ended 30 June 2018

### Market Risk

Market risk is the risk that changes in interest rates, foreign exchange rates or other prices and volatilities will have an adverse effect on the Bank's financial condition or results. The Bank is not exposed to currency risk, and other significant price risk. The Bank does not trade in the financial instruments it holds on its books. The Bank is exposed only to interest rate risk arising from changes in market interest rates. The management of market risk is the responsibility of ALCO.

#### (i) Interest Rate Risk

Interest rate risk is the risk of variability of the fair value or future cash flows arising from financial instruments due to the changes in interest rates.

Most banks are exposed to interest rate risk within their Treasury operations. Police Bank does not trade in financial instruments.

#### (ii) Interest Rate Risk in the Banking Book

The Bank is exposed to interest rate risk in its banking book due to mismatches between the repricing dates of assets and liabilities.

The interest rate risk on the banking book is measured daily, reported to ALCO monthly, and to the Board via ALCO monthly.

In the banking book the most common risk the Bank faces arises from fixed rate assets and liabilities. This exposes the Bank to the risk of sensitivity should interest rates change.

The level of mismatch on the banking book is set out in Note 27. The table set out at Note 27 displays the period that each asset and liability will reprice as at the balance date.

#### (iii) Method of Managing Risk

The Bank manages its interest rate risk by the use of value at risk models (VAR) and interest rate sensitivity analysis, the detail and assumptions used are set out below. Risk Management is also facilitated by the introduction of a Pricing Committee in the 2017 financial year.

#### (iv) Hedging

To mitigate this risk the Bank has entered into pay fixed/receive floating interest rate swaps. The interest rate risk on fixed rate loans/assets are hedged by purchasing pay fixed/receive floating interest rate swaps. As at 30 June 2018 the notional principle amounts of the interest rate swap contracts is \$10,000,000. The fair value reflected in the Balance Sheet is (\$5,894). The valuation of the derivative transactions is based on mid-market levels as of the close of business on 30 June 2018. The valuations are derived from proprietary models based upon well recognised financial principles and reasonable estimates about relevant future market conditions.

#### (v) Interest Rate Sensitivity

The Bank's exposure to market risk is measured and monitored using interest rate sensitivity models.

The policy of the Bank to manage the risk is to monitor on a monthly basis the changes to maturity profiles within its deposit base and changes in the underlying portfolio mix to ensure that such changes will not have an unacceptable adverse outcome to the Bank. The policy of the Bank is to use derivatives to hedge against adverse consequences of interest rate risk. The Bank's exposure to interest rate risk is set out in Note 27 which details the contractual interest change profile.

Based on the calculations as at 30 June 2018, the calculated market value of equity (EVE) is \$188.5 million, with a sensitivity of \$7,149,136 to a 1% change in interest rates.

The Bank performs a sensitivity analysis to measure market risk exposures.

The method used in determining the sensitivity was to evaluate the profit based on the timing of the interest repricing on the banking book of the Bank for the next 12 months. In doing the calculation the assumptions applied were that:

- the interest rate change would be applied equally over to the loan products and term deposits;
- the rate change would be as at the beginning of the 12 month period and no other rate changes would be effective during the period;
- the term deposits would all reprice to the new interest rate at the term maturity, or be replaced by deposit with similar terms and rates applicable;
- savings deposits would not reprice in the event of a rate change;
- fixed rate loans would all reprice to the new interest rate at the contracted date;
- variable rate mortgage loans would all reprice to the new interest rate in one month;
- personal loans would reprice at the contracted maturity date;
- all loans would be repaid in accordance with the current average repayment rate (or contractual repayment terms);
- the value and mix of call savings to term deposits will be unchanged; and
- the value and mix of personal loans to mortgage loans will be unchanged.

There has been no change to the Bank's exposure to market risk or the way the Bank manages and measures market risk in the reporting period.



# Notes to the accounts

For the year ended 30 June 2018

## Liquidity Risk

Liquidity risk is the risk that the Bank may encounter difficulties raising funds to meet commitments associated with financial instruments, e.g. borrowing repayments or Member withdrawal demands. It is the policy of the Board of Directors that the Bank maintains adequate cash reserves and committed credit facilities so as to meet the Member withdrawal demands when requested.

The Bank manages liquidity risk by:

- continuously monitoring actual daily cash flows and longer term forecasted cash flows;
- monitoring the maturity profiles of financial assets and liabilities;
- maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities; and
- monitoring the prudential liquidity ratio daily.
- The Bank has a longstanding arrangement with the industry liquidity support company Credit Union Financial Support Services (CUFSS) which can access industry funds to provide support to the Bank should it be necessary at short notice.

Police Bank has withdrawn from the CUFSS' scheme on 1st September 2017. Bank of Heritage Isle is currently a member of CUFSS Ltd and will withdraw from the scheme on the 1st July 2018.

APRA:	2018	2017
<b>To total adjusted liabilities</b>		
As at 30 June	13.34%	15.10%
Average for the year	13.90%	15.63%
Minimum during the year	13.34%	15.10%
<b>To total Member deposits</b>		
As at 30 June	<b>14.69%</b>	<b>19.33%</b>

## Operational Risk

The Enterprise Risk Committee is responsible for managing and reporting on Enterprise Risk across the Bank, including Operational Risk.

Operational risk is the risk of loss resulting from inadequate or failed processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks. Operational risk at the Bank relates mainly to regulatory compliance, business continuity, data infrastructure, outsourced services failures, fraud and employee errors.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial loss through the application of controls whilst avoiding procedures that inhibit innovation and creativity. These controls are managed through the application of policies, processes and systems to minimise the likelihood and impact of risk events.

The Bank has implemented an Operational Risk Management Framework that includes risk identification, measurement,

evaluation, monitoring and reporting process where the board and senior management identify key risk in a 'top down' approach and business units identify risks in a 'bottom up' approach.

## Capital Management

The capital levels are prescribed by Australian Prudential Regulation Authority (APRA). Under the APRA prudential standards capital is determined in three components:

- Credit risk;
- Market risk (Trading Book); and
- Operations risk.

The market risk component is not required as the Bank is not engaged in a Trading Book for financial instruments.

## Capital Resources

### Tier 1 Capital

The vast majority of Tier 1 capital comprises:

- Retained profits;
- Realised reserves; and
- Asset revaluation reserves on property.

### Additional Tier 1 capital

This is a new classification of capital and includes:

- Preference share capital approved by APRA and which qualify as Tier 1 capital.

### Tier 2 Capital

Tier 2 capital consists of capital instruments that combine the features of debt and equity in that they are structured as debt instruments, but exhibit some of the loss absorption and funding flexibility features of equity. There are a number of criteria that capital instruments must meet for inclusion in Tier 2 capital resources as set down by APRA.

Capital in the Bank is made up as shown in chart below.

	2018	2017
<b>Tier 1</b>		
Share capital	442,170	432,760
General reserve	45,347,864	42,797,000
Retained earnings	151,858,852	138,796,596
Asset revaluations reserves	1,103,734	268,875
Less prescribed deductions	(13,128,159)	(22,635,896)
Net tier 1 capital	185,624,461	159,659,335
<b>Tier 2</b>		
Reserve for credit losses	3,206,345	2,740,600
Tier 2 capital	3,206,345	2,740,600
<b>Total Capital</b>	<b>188,830,806</b>	<b>162,399,935</b>

## Notes to the accounts

For the year ended 30 June 2018

The Bank is required to maintain a minimum capital level of 8% as compared to the risk weighted assets at any given time.

The risk weights attached to each asset are based on the weights prescribed by APRA in its Guidance AGN 112-1. The general rules apply the risk weights according to the level of underlying security.

The capital ratio as at the end of the financial year over the past 5 years is as follows:

2018	2017	2016	2015	2014
Basel III	Basel III	Basel III	Basel III	Basel III
19.40%	18.65%	18.87%	18.53%	18.72%

The level of capital ratio can be affected by growth in asset relative to growth in reserves and by changes in the mix of assets.

To manage the Bank's capital, the Bank reviews the ratio monthly and monitors movements in the asset levels. Policies have been implemented to require reporting to the Board and the regulator if the capital ratio falls below 14.5%. Further a 5 year capital budget projection of the capital levels is maintained annually to address how strategic decisions or trends may impact on the capital level.

### Pillar 2 Capital on Operational Risk

This capital component was introduced as from 1 January 2012 and coincided with changes in the asset risk weightings for specified loans and liquid investments. Previously no operational charge was prescribed.

The Bank uses the Standardised approach which is considered to be most suitable for its business given the small number of distinct transaction streams. The Operational Risk Capital Requirement is calculated by mapping the Bank's three year average net interest income and net non-interest income to the Bank's various business lines.

Based on this approach, the Bank's operational risk requirement is as follows:

- Operational Risk Regulatory Capital \$7,752,880

It is considered that the Standardised approach accurately reflects the Bank's operational risk other than for the specific items set out below:

### Internal Capital Adequacy Management

The Bank's Asset and Liability Committee (ALCO) has primary responsibility for oversight and management of internal capital levels. The outputs of the individual committees are reviewed by the board in its capacity as the primary governing body. The capital required for any change in the Bank's forecasts for asset growth, or unforeseen circumstances, are assessed by the Board. The finance department then update the forecast capital resources models produced and the impact upon the overall capital position of the Bank is reassessed.

In relation to the operational risks, the major measurements for additional capital are recognised by the monitoring and stress testing for:

1. Asset impairment- the impact of economic and employment factors on the loan losses, and/or recovery of investments.
2. Property value decline- the impact on property values declining and the related exposure to higher capital required to recognise potential losses or risk weight on assets.
3. Interest rate risk- measures the impact on capital from changes in interest rates impacting the net interest margin and net surplus.
4. Events impacting on additional costs of retention of liquid funds and exercising available liquidity drawdown facilities.

# Notes to the accounts

For the year ended 30 June 2018

## 24. Categories of Financial Instruments and Liabilities

The following information classifies the financial instruments into measurement classes.

	Note(s)	CONSOLIDATED		POLICE BANK	
		2018	2017	2018	2017
		\$	\$	\$	\$
<b>Financial Assets - carried at amortised cost</b>					
Cash	6	39,203,802	45,469,728	38,720,318	45,010,828
Receivables from Financial Institutions	7	45,900,000	24,000,000	45,900,000	24,000,000
Receivables	8	3,571,930	3,316,999	3,294,672	3,032,241
Investment Securities	9	173,729,483	196,724,713	173,729,483	196,724,713
Loans & Advances	10&11	1,594,299,640	1,370,277,171	1,594,299,640	1,370,277,171
<b>Total Loans and Receivables</b>		<b>1,856,704,855</b>	<b>1,639,788,611</b>	<b>1,855,944,113</b>	<b>1,639,044,953</b>
Available for Sale Investments carried at cost	12a	23,103,973	11,332,671	23,103,973	11,332,671
Investment in Subsidiary	12b	-	-	5,403,458	5,274,117
Non-current Assets Available for Sale	12c	1,497,575	-	1,497,575	-
<b>Total Financial Assets</b>		<b>1,881,306,403</b>	<b>1,651,121,282</b>	<b>1,885,949,119</b>	<b>1,655,651,741</b>
<b>Financial Liabilities carried at amortised cost</b>					
Short Term Borrowings	16	90,571,332	108,160,357	90,571,332	108,160,357
Deposits from Members	17	1,598,841,999	1,368,637,228	1,598,841,999	1,368,637,228
Withdrawable Shares	17	340,178	298,060	340,178	298,060
Creditors and Borrowings	18	16,865,108	16,999,729	16,712,408	16,942,379
<b>Total Carried at Amortised Cost</b>		<b>1,706,618,617</b>	<b>1,494,095,374</b>	<b>1,706,465,917</b>	<b>1,494,038,024</b>
Fair Value of Derivatives		5,894	49,995	5,894	49,995
<b>Total Financial Liabilities</b>		<b>1,706,624,511</b>	<b>1,494,145,369</b>	<b>1,706,471,811</b>	<b>1,494,088,019</b>

## Notes to the accounts

For the year ended 30 June 2018

### 25. Maturity Profile of Financial Assets and Liabilities

Monetary assets and liabilities have differing maturity profiles depending on their contractual term, and in the case of loans, the repayment amount and frequency. The table on the next page shows the period in which different monetary assets and liabilities held will mature and be eligible for renegotiation or withdrawal. In the case of loans, the table shows the period over which the principal outstanding will be repaid based on the remaining period to the repayment date assuming contractual repayments are maintained, and is subject to change in the event that current repayment conditions are varied. Financial assets and liabilities are at the undiscounted values (including future interest expected to be earned or paid). Accordingly these values will not agree to the balance sheet.

	2018					Total Cash Flows
	Balance Sheet	Up to 3 Months	3 to 12 Months	1 to 5 Years	After 5 Years	
	\$	\$	\$	\$	\$	\$
<b>Assets:</b>						
Cash	39,203,802	39,203,802	-	-	-	39,203,802
Receivables	3,571,930	3,571,930	-	-	-	3,571,930
Receivables from Financial Institutions	45,900,000	23,548,956	22,500,000	-	-	46,048,956
Investment Securities	173,729,483	85,968,566	9,516,965	77,749,534	1,000,000	174,235,065
Loans and Advances	1,594,299,640	33,848,834	101,546,501	541,581,336	1,600,167,097	2,277,143,768
Available for Sale Investments	23,103,973	-	-	-	23,103,973	23,103,973
Non-current Assets Available for Sale	1,497,575	-	1,497,575	-	-	1,497,575
<b>On Balance Sheet Financial Assets</b>	<b>1,881,306,403</b>	<b>186,142,088</b>	<b>135,061,041</b>	<b>619,330,870</b>	<b>1,624,271,070</b>	<b>2,564,805,069</b>
Interest Rate Swaps	10,000,000	-	10,000,000	-	-	10,000,000
<b>Total Financial Assets</b>	<b>1,891,306,403</b>	<b>186,142,088</b>	<b>145,061,041</b>	<b>619,330,870</b>	<b>1,624,271,070</b>	<b>2,574,805,069</b>
<b>Liabilities:</b>						
Creditors and Accruals	10,361,660	10,361,660	-	-	-	10,361,660
Creditors Interest Payable on Deposits	6,503,448	6,503,448	-	-	-	6,503,448
Deposits from Members - At Call	823,706,433	823,706,433	-	-	-	823,706,433
Deposits from Members - Fixed Term	775,135,566	371,981,196	304,932,001	116,652,665	-	793,565,862
Negotiable Certificate of Deposit	75,571,332	52,000,000	24,500,000	-	-	76,500,000
Medium Term Notes	15,000,000	15,000,000	-	-	-	15,000,000
Withdrawable Shares	340,178	340,178	-	-	-	340,178
<b>On Balance Sheet Financial Liabilities</b>	<b>1,706,618,617</b>	<b>1,279,892,915</b>	<b>329,432,001</b>	<b>116,652,665</b>	<b>-</b>	<b>1,725,977,581</b>
Undrawn Loan Commitments	109,507,134	109,507,134	-	-	-	109,507,134
Interest Rate Swaps	10,000,000	-	10,000,000	-	-	10,000,000
<b>Total Financial Liabilities</b>	<b>1,826,125,751</b>	<b>1,389,400,049</b>	<b>339,432,001</b>	<b>116,652,665</b>	<b>-</b>	<b>1,845,484,715</b>

# Notes to the accounts

For the year ended 30 June 2018

	2017					Total Cash Flows
	Balance Sheet	Up to 3 Months	3 to 12 Months	1 to 5 Years	After 5 Years	
	\$	\$	\$	\$	\$	\$
<b>Assets:</b>						
Cash	45,469,728	45,469,728	-	-	-	45,469,728
Receivables	3,316,999	3,316,999	-	-	-	3,316,999
Receivables from Financial Institutions	24,000,000	20,113,603	4,000,000	-	-	24,113,603
Investment Securities	196,724,713	96,000,000	27,003,254	63,182,186	11,160,000	197,345,440
Loans and Advances	1,370,277,171	29,395,862	88,187,585	470,333,785	1,373,128,063	1,961,045,295
Available for Sale Investments	11,332,671	-	-	-	11,332,671	11,332,671
<b>On Balance Sheet Financial Assets</b>	<b>1,651,121,282</b>	<b>194,296,192</b>	<b>119,190,839</b>	<b>533,515,971</b>	<b>1,395,620,734</b>	<b>2,242,623,736</b>
Interest Rate Swaps	20,000,000	10,000,000	-	10,000,000	-	20,000,000
<b>Total Financial Assets</b>	<b>1,671,121,282</b>	<b>204,296,192</b>	<b>119,190,839</b>	<b>543,515,971</b>	<b>1,395,620,734</b>	<b>2,262,623,736</b>
<b>Liabilities:</b>						
Creditors and Accruals	12,023,844	12,023,844	-	-	-	12,023,844
Creditors Interest Payable on Deposits	4,975,885	4,975,885	-	-	-	4,975,885
Deposits from Members - At Call	710,357,669	710,357,669	-	-	-	710,357,669
Deposits from Members - Fixed Term	658,279,559	325,324,712	225,172,465	119,795,357	-	670,292,534
Negotiable Certificate of Deposit	48,160,357	38,500,000	10,000,000	-	-	48,500,000
Medium Term Notes	60,000,000	20,000,000	25,000,000	15,000,000	-	60,000,000
Withdrawable Shares	298,060	298,060	-	-	-	298,060
<b>On Balance Sheet Financial Liabilities</b>	<b>1,494,095,374</b>	<b>1,111,480,170</b>	<b>260,172,465</b>	<b>134,795,357</b>	<b>-</b>	<b>1,506,447,992</b>
Undrawn Loan Commitments	116,145,730	116,145,730	-	-	-	116,145,730
Interest Rate Swaps	20,000,000	10,000,000	-	10,000,000	-	20,000,000
<b>Total Financial Liabilities</b>	<b>1,630,241,104</b>	<b>1,237,625,900</b>	<b>260,172,465</b>	<b>144,795,357</b>	<b>-</b>	<b>1,642,593,722</b>

## Notes to the accounts

For the year ended 30 June 2018

### 26. Current and Non-current Maturity Profile of Financial Assets and Liabilities

The table below represents the above maturity profile summarised at discounted values. The contractual arrangements best represents the estimated minimum amount of repayment on the loans, liquid investments and on the member deposits within 12 months. While the liquid investments and member deposits are presented in the table below on a contractual basis, as part of our normal banking operations we would expect a large proportion of these balances to roll over. Loan repayments are generally accelerated by Members choosing to repay loans earlier. These advance repayments are at the discretion of the Members and not able to be reliably estimated.

	2018		
	Within 12 months	After 12 months	Total
	\$	\$	\$
<b>Assets:</b>			
Cash	39,203,802	-	39,203,802
Receivables	3,571,930	-	3,571,930
Receivables from Financial Institutions	45,900,000	-	45,900,000
Investment Securities	94,979,950	78,749,533	173,729,483
Loans and Advances	65,218,775	1,529,080,865	1,594,299,640
Available for Sale Investments	-	23,103,973	23,103,973
Non-current Assets Available for Sale	1,497,575	-	1,497,575
<b>On Balance Sheet Financial Assets</b>	<b>250,372,032</b>	<b>1,630,934,371</b>	<b>1,881,306,403</b>
Interest Rate Swaps	10,000,000	-	10,000,000
<b>Total Financial Assets</b>	<b>260,372,032</b>	<b>1,630,934,371</b>	<b>1,891,306,403</b>
<b>Liabilities:</b>			
Creditors and Accruals	10,361,660	-	10,361,660
Creditors Interest Payable on deposits	6,503,448	-	6,503,448
Deposits from Members - At Call	823,706,433	-	823,706,433
Deposits from Members - Fixed Term	659,837,802	115,297,764	775,135,566
Negotiable Certificate of Deposit	75,571,332	-	75,571,332
Medium Term Note	15,000,000	-	15,000,000
Withdrawable Shares	340,178	-	340,178
<b>On Balance Sheet Financial Liabilities</b>	<b>1,591,320,853</b>	<b>115,297,764</b>	<b>1,706,618,617</b>
Undrawn Loan Commitments	109,507,134	-	109,507,134
Interest Rate Swaps	10,000,000	-	10,000,000
<b>Total Financial Liabilities</b>	<b>1,710,827,987</b>	<b>115,297,764</b>	<b>1,826,125,751</b>

# Notes to the accounts

For the year ended 30 June 2018

	2017		Total
	Within 12 months	After 12 months	
	\$	\$	\$
<b>Assets:</b>			
Cash	45,469,728	-	45,469,728
Receivables	3,316,999	-	3,316,999
Receivables from Financial Institutions	24,000,000	-	24,000,000
Investment Securities	122,382,527	74,342,186	196,724,713
Loans and Advances	56,315,099	1,313,962,072	1,370,277,171
Available for Sale Investments	-	11,332,671	11,332,671
<b>On Balance Sheet Financial Assets</b>	<b>251,484,353</b>	<b>1,399,636,929</b>	<b>1,651,121,282</b>
Interest Rate Swaps	10,000,000	10,000,000	20,000,000
<b>Total Financial Assets</b>	<b>261,484,353</b>	<b>1,409,636,929</b>	<b>1,671,121,282</b>
<b>Liabilities:</b>			
Creditors and Accruals	12,023,844	-	12,023,844
Creditors Interest Payable on deposits	4,975,885	-	4,975,885
Deposits from Members - At Call	710,357,669	-	710,357,669
Deposits from Members - Fixed Term	540,822,359	117,457,200	658,279,559
Negotiable Certificate of Deposit	48,160,357	-	48,160,357
Medium Term Note	45,000,000	15,000,000	60,000,000
Withdrawable Shares	298,060	-	298,060
<b>On Balance Sheet Financial Liabilities</b>	<b>1,361,638,174</b>	<b>132,457,200</b>	<b>1,494,095,374</b>
Undrawn Loan Commitments	116,145,730	-	116,145,730
Interest Rate Swaps	10,000,000	10,000,000	20,000,000
<b>Total Financial Liabilities</b>	<b>1,487,783,904</b>	<b>142,457,200</b>	<b>1,630,241,104</b>

## Notes to the accounts

For the year ended 30 June 2018

### 27. Interest Rate Change Profile of Financial Assets and Liabilities

Monetary assets and liabilities have conditions which allow interest rates to be amended either on maturity (Term Deposits and Term Investments) or after adequate notice is given (Loans and Savings). The following table shows the respective value of funds where interest rates are capable of being altered within the prescribed time bands, being the earlier of the contractual repricing date, or maturity date.

	2018					Total
	Floating Rate	1 to 3 Months	3 to 12 Months	1 to 5 Years	Non-Interest Sensitive	
	\$	\$	\$	\$	\$	\$
<b>Assets:</b>						
Cash	35,846,961	-	-	-	3,356,841	39,203,802
Receivables	-	-	-	-	3,571,930	3,571,930
Receivables from Financial Institutions	-	45,900,000	-	-	-	45,900,000
Investment Securities	-	173,729,483	-	-	-	173,729,483
Loans and Advances	1,019,655,562	8,254,681	58,415,375	507,974,022	-	1,594,299,640
Available for Sale Investments	-	-	-	-	23,103,973	23,103,973
Non-current Assets Available for Sale	-	-	-	-	1,497,575	1,497,575
<b>On Balance Sheet Financial Assets</b>	<b>1,055,502,523</b>	<b>227,884,164</b>	<b>58,415,375</b>	<b>507,974,022</b>	<b>31,530,319</b>	<b>1,881,306,403</b>
Interest Rate Swaps	-	10,000,000	-	-	-	10,000,000
<b>Total Financial Assets</b>	<b>1,055,502,523</b>	<b>237,884,164</b>	<b>58,415,375</b>	<b>507,974,022</b>	<b>31,530,319</b>	<b>1,891,306,403</b>
<b>Liabilities:</b>						
Creditors, Interest Payable on Deposits	-	-	-	-	16,865,108	16,865,108
Deposits from Members - At Call	823,706,433	-	-	-	-	823,706,433
Deposits from Members - Fixed Term	-	296,533,078	363,303,337	115,299,151	-	775,135,566
Negotiable Certificate of Deposit	-	51,655,070	23,916,262	-	-	75,571,332
Medium Term Note	-	15,000,000	-	-	-	15,000,000
Withdrawable Shares	-	-	-	-	340,178	340,178
<b>On Balance Sheet Financial Liabilities</b>	<b>823,706,433</b>	<b>363,188,148</b>	<b>387,219,599</b>	<b>115,299,151</b>	<b>17,205,286</b>	<b>1,706,618,617</b>
Undrawn Loan Commitments	109,507,134	-	-	-	-	109,507,134
Interest Rate Swaps	-	10,000,000	-	-	-	10,000,000
<b>Total Financial Liabilities</b>	<b>933,213,567</b>	<b>373,188,148</b>	<b>387,219,599</b>	<b>115,299,151</b>	<b>17,205,286</b>	<b>1,826,125,751</b>



# Notes to the accounts

For the year ended 30 June 2018

	2017					
	Floating Rate	1 to 3 Months	3 to 12 Months	1 to 5 Years	Non-Interest Sensitive	Total
	\$	\$	\$	\$	\$	\$
<b>Assets:</b>						
Cash	42,493,685	-	-	-	2,976,043	45,469,728
Accrued Receivables	-	-	-	-	3,316,999	3,316,999
Receivables from Financial Institutions	-	24,000,000	-	-	-	24,000,000
Investment Securities	-	186,824,785	9,899,928	-	-	196,724,713
Loans and Advances	867,676,188	14,040,065	79,062,436	409,498,482	-	1,370,277,171
Available for Sale Investments	-	-	-	-	11,332,671	11,332,671
<b>On Balance Sheet Financial Assets</b>	<b>910,169,873</b>	<b>224,864,850</b>	<b>88,962,364</b>	<b>409,498,482</b>	<b>17,625,713</b>	<b>1,651,121,282</b>
Interest Rate Swaps	-	20,000,000	-	-	-	20,000,000
<b>Total Financial Assets</b>	<b>910,169,873</b>	<b>244,864,850</b>	<b>88,962,364</b>	<b>409,498,482</b>	<b>17,625,713</b>	<b>1,671,121,282</b>
<b>Liabilities:</b>						
Creditors, Interest Payable on Deposits	-	-	-	-	16,999,729	16,999,729
Deposits from Members - At Call	710,357,669	-	-	-	-	710,357,669
Deposits from Members - Fixed Term	-	273,807,015	267,015,344	117,457,200	-	658,279,559
Negotiable Certificate of Deposit	-	38,258,511	9,901,846	-	-	48,160,357
Medium Term Note	-	60,000,000	-	-	-	60,000,000
Withdrawable Shares	-	-	-	-	298,060	298,060
<b>On Balance Sheet Financial Liabilities</b>	<b>710,357,669</b>	<b>372,065,526</b>	<b>276,917,190</b>	<b>117,457,200</b>	<b>17,297,789</b>	<b>1,494,095,374</b>
Undrawn Loan Commitments	116,145,730	-	-	-	-	116,145,730
Interest Rate Swaps	-	20,000,000	-	-	-	20,000,000
<b>Total Financial Liabilities</b>	<b>826,503,399</b>	<b>392,065,526</b>	<b>276,917,190</b>	<b>117,457,200</b>	<b>17,297,789</b>	<b>1,630,241,104</b>

## Notes to the accounts

For the year ended 30 June 2018

### 28. Net Fair Value of Financial Assets and Liabilities

Net Fair Value is an estimate of the present market value of each asset or liability and has been calculated to show the difference between the current and future value of funds at the present time. Where the assets/liabilities are short term in nature or reprice frequently, then the net fair value is stated at book value.

The information is only relevant to circumstances at Balance Date and will vary depending on the contractual rates applied to each asset and liability. No assets held are regularly traded by the Bank.

	RECEIVABLES FROM OTHER FINANCIAL INSTITUTIONS		LOANS & ADVANCES (BEFORE PROVISION)	
	2018	2017	2018	2017
	\$	\$	\$	\$
<b>Assets:</b>				
Net Fair Value	215,531,402	216,835,129	1,597,573,921	1,372,782,846
Book Value	219,629,483	220,724,713	1,596,954,025	1,372,748,774
<b>Variance</b>	<b>(4,098,081)</b>	<b>(3,889,584)</b>	<b>619,896</b>	<b>34,072</b>

	PAYABLE TO OTHER FINANCIAL INSTITUTIONS		MEMBER DEPOSITS		INTEREST RATE SWAPS	
	2018	2017	2018	2017	2018	2017
	\$	\$	\$	\$	\$	\$
<b>Liabilities:</b>						
Net Fair Value	74,309,782	48,660,489	1,598,940,052	1,368,109,218	9,994,106	19,950,005
Book Value	75,571,332	48,160,357	1,599,182,177	1,368,935,288	10,000,000	20,000,000
<b>Variance</b>	<b>(1,261,550)</b>	<b>500,132</b>	<b>(242,125)</b>	<b>(826,070)</b>	<b>(5,894)</b>	<b>(49,995)</b>

### 29. Derivative Financial Instruments

The Bank is exposed to the financial risk of changes in interest rates to the extent of the repricing profile of the Bank's balance sheet. Derivative financial instruments are held for the purpose of managing existing or anticipated risk from the source.

The Bank applies cash flow hedge accounting to hedge the variability in highly probable forecast future cash flows attributable to interest rate risk.

	2018		2017	
	Notional Value	Fair Value	Notional Value	Fair Value
	\$	\$	\$	\$
Interest Rate Swaps designated as cash flow hedges	10,000,000	9,994,106	20,000,000	19,950,005

# Notes to the accounts

For the year ended 30 June 2018

## 30. Expenditure Commitments

### a. Future Capital Commitments

	CONSOLIDATED		POLICE BANK	
	2018	2017	2018	2017
	\$	\$	\$	\$
Within 1 year	1,094,959	978,333	1,094,959	978,333
1 to 2 years	1,094,959	978,333	1,094,959	978,333
3 to 5 years	2,651,567	2,385,000	2,651,567	2,385,000
over 5 years	-	503,137	-	503,137
<b>Total</b>	<b>4,841,485</b>	<b>4,844,803</b>	<b>4,841,485</b>	<b>4,844,803</b>

### b. Future Lease Rental Commitments

Future lease rental commitments are \$3,939,050 (2017 \$2,648,561). Operating lease payments under existing lease arrangements for office accommodation are payable over the following periods:

	CONSOLIDATED		POLICE BANK	
	2018	2017	2018	2017
	\$	\$	\$	\$
Within 1 year	1,154,162	963,452	1,067,771	963,452
1 to 2 years	1,098,413	688,767	1,009,844	688,767
3 to 5 years	1,670,358	996,342	1,425,861	996,342
over 5 years	16,117	-	16,117	-
<b>Total</b>	<b>3,939,050</b>	<b>2,648,561</b>	<b>3,519,593</b>	<b>2,648,561</b>

## 31. Financial Commitments

### a. Loan Commitments

Loans approved but not funded as at 30 June 2018 total \$44,582,911 (2017 \$52,255,371).

### b. Undrawn Loan Facilities

Loan facilities available to Members for Overdrafts, Credit Card and Redraw Loans are as follows:

	CONSOLIDATED		POLICE BANK	
	2018	2017	2018	2017
	\$	\$	\$	\$
Total value of facilities approved	103,648,016	103,827,689	103,648,016	103,827,689
Less: Amount outstanding at balance day	(38,723,793)	(39,937,330)	(38,723,793)	(39,937,330)
<b>Net undrawn value</b>	<b>64,924,223</b>	<b>63,890,359</b>	<b>64,924,223</b>	<b>63,890,359</b>

These commitments are contingent on Members maintaining credit standards and on-going repayment terms on amounts drawn. Under the contracts, the Bank has the right to withdraw the facilities at any time without notice.

## Notes to the accounts

For the year ended 30 June 2018

### 32. Standby Borrowing Facilities

The Bank has the following credit facilities with Cuscal:

	CONSOLIDATED		POLICE BANK	
	2018	2017	2018	2017
	\$	\$	\$	\$
<b>Overdraft:</b>				
Approved Limit	4,500,000	4,000,000	4,500,000	4,000,000
Less: Amount drawn	-	-	-	-
<b>Available to draw</b>	<b>4,500,000</b>	<b>4,000,000</b>	<b>4,500,000</b>	<b>4,000,000</b>

Draw down of the loan facility is subject to the availability of funds at Cuscal. Cuscal holds a cash deposit equivalent to the amount of the overdraft.

### 33. Contingent Liabilities

#### Liquidity Support Scheme

The Bank is a Member of CUFSS Ltd, a company established to provide financial support to Member Mutual ADIs in the event of a liquidity or capital problem arising. As a Member, the Bank is committed to maintaining an amount equivalent to 3.2% of total assets as deposits with Cuscal and/or a CUFSS approved Authorised Deposit-taking Institution (ADI). The maximum call for each Member ADI would be 3.2% of the Bank's total assets. The Bank has the opportunity under certain circumstances to draw on this scheme. Police Bank has withdrawn from the CUFSS' scheme on 1st September 2017. Bank of Heritage Isle is currently a member of CUFSS Ltd and will withdraw from the scheme on the 1st July 2018.

### 34. Disclosures on Key Management Personnel

#### a. Remuneration of Key Management Personnel

Key Management Personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly including any Director (whether Executive or otherwise) of that entity. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Key Management Persons have been taken to comprise the Directors and the 4 Members of the Executive Management responsible for the day to day financial and operational management of the Bank.

The aggregate compensation of Key Management Persons during the year comprising amounts paid or payable or provided for was as follows:

	2018			2017		
	Directors	Other KMP	Total	Directors	Other KMP	Total
	\$	\$	\$	\$	\$	\$
(a) short term employee benefits	578,253	2,127,731	2,705,984	616,919	1,323,796	1,940,715
(b) Post-employment benefits- Superannuation Contributions	51,646	182,107	233,753	48,168	120,070	168,238
(c) Other long-term benefits- net increases in Long Service leave provision	-	8,677	8,677	-	18,945	18,945
(d) Termination benefits	208,789	186,463	395,252	57,680	-	57,680
(e) Share-based Payment	-	-	-	-	-	-
<b>Total</b>	<b>838,688</b>	<b>2,504,978</b>	<b>3,343,666</b>	<b>722,767</b>	<b>1,462,811</b>	<b>2,185,578</b>

# Notes to the accounts

For the year ended 30 June 2018

In the above table, remuneration shown as "short term benefits" means wages, salaries, paid annual leave and paid sick leave, bonuses, value of Fringe Benefits received, but excludes out of pocket expense reimbursements. All remuneration to Directors was approved by the Members at the previous Annual General Meeting of the Bank.

Note the AASB 124 standard does not specifically require the separation of the Directors and Executive remuneration. This note should be read in conjunction with note 19 of the financial statements.

## Other Transactions with Key Management Persons

The disclosures are made in accordance with AASB 124 and include disclosures relating to policy for lending to related parties and, in respect of related party transactions, the amount included in:

- (i) each of the loans and advances, deposits and acceptances and promissory notes;
- (ii) each of the principal types of income and interest expense;
- (iii) the amount of the expense recognised in the period for impairment losses on loans and advances and the amount of any allowance at the reporting date; and
- (iv) irrevocable commitments and contingencies arising from off balance sheet items.

## b. Loans to Directors and Other Key Management Persons

	CONSOLIDATED		POLICE BANK	
	2018	2017	2018	2017
	\$	\$	\$	\$
(i) The aggregate value of loans to Directors and other Key Management Personnel as at balance date amounted to:	1,336,969	1,460,655	1,336,969	1,460,655
(ii) The total value of revolving credit facilities to Directors and other Key Management Personnel, as at balance date amounted to:	59,000	49,000	59,000	49,000
Less amounts drawn down and included in (i)	(11,579)	(2,619)	(11,579)	(2,619)
<b>Net balance available</b>	<b>47,421</b>	<b>46,381</b>	<b>47,421</b>	<b>46,381</b>
(iii) During the year aggregate value of loans dispersed to Directors and other Key Management Personnel amounted to:				
Revolving Credit Facilities	192,372	63,338	192,372	63,338
Personal Loans	-	-	-	-
Term Loans	618,709	230,000	618,709	230,000
<b>Total</b>	<b>811,081</b>	<b>293,338</b>	<b>811,081</b>	<b>293,338</b>
(iv) During the year the aggregate value of Revolving Credit Facility limits granted or increased to Directors and other Key Management Personnel amounted to:	-	-	-	-
(v) Interest and other revenue earned on Loans and Revolving Credit facilities to Key Management Personnel.	50,264	54,387	50,264	54,387

The Bank's policy for lending to Directors and Management is that the loans are approved and deposits accepted on the same terms and conditions which apply to Members for each class of loan or deposit with the exception of loans to KMP who are not Directors. There are no loans which are impaired in relation to the loan balances with Director's or other KMPs.

There are no benefits or concessional terms and conditions applicable to the close family members of the Key Management Persons. There are no loans which are impaired in relation to the loan balances with close family relatives of Directors and KMP.

## Notes to the accounts

For the year ended 30 June 2018

Other transactions between related parties include deposits from Directors, and other KMP are:

	CONSOLIDATED		POLICE BANK	
	2018	2017	2018	2017
	\$	\$	\$	\$
Total value Term and Savings Deposits from KMP	1,863,403	1,781,664	1,863,403	1,781,664
Total Interest paid on Deposits to KMP	46,636	54,140	46,636	54,140

The Bank's policy for receiving deposits from KMP is that all transactions are approved and deposits accepted on the same terms and conditions which apply to Members for each type of deposit.

### c. Transactions with Other Related Parties

Other transactions between related parties include deposits from Director related entities or close family Members of Directors, and other KMP. The Bank's policy for receiving deposits from related parties is that all transactions are approved and accepted on the same terms and conditions which apply to Members.

There are no benefits paid or payable to the close family members of the Key Management Persons. There are no service contracts to which Key Management Persons or their close family members are an interested party.

## 35. Events Occurring after the Balance Date

There were no events that have occurred since 30 June 2018 that will have significant impact upon the Bank.

## 36. Superannuation Liabilities

If an employee does not nominate a fund of choice, the Bank contributes to one of two superannuation funds. One being the NGS Super which is an industry fund. The Bank has no interest in the Superannuation Fund (other than as a contributor to comply with Superannuation Guarantee Levy) and is not liable for the performance of the plan nor the obligations of the plan.

The other fund is a Corporate Master Trust which is administered by MLC Limited. It is a contribution accumulated type fund. The Bank has no legal obligation to cover any shortfall in the Fund's obligation to provide benefits to employees on retirement. In the event the Fund is terminated, Members are only entitled to the balance of their account within the fund. As at the date of the last annual review being 30 June 2018, the fund had reserves equal to Members accumulated balances.

The Bank is legally obligated to contribute to the Fund as per the Superannuation Guarantee Levy Act and for employees who have a contract of service. These obligations are enforceable. As at the date of this report there is:

1. No outstanding payments due by the Bank.
2. No former employee or any individual associated with a former employee or an entity of a former employee receiving or entitled to receive a benefit under the Corporate Master Trust.

## 37. Transfers of Financial Assets

The Bank has established arrangements for the transfer of loan contractual benefits of interest and repayments to support ongoing liquidity facilities. These arrangements are with:

- (i) The repurchase obligation (REPO) trust for securing the ability to obtain liquid funds from the Reserve Bank – these loans are not derecognised as the Bank retains the benefits of the trust until such time as a drawing is required.
- (ii) The Integris securitisation trust where the Bank acts as agent for the trust in arranging loans on behalf of Integris, and/or can transfer the contractual rights to the trust of pre-existing loans at market value.

Only residential mortgage-backed securities (RMBS) that meet specified criteria, are eligible to be transferred in each of the above situations.

# Notes to the accounts

For the year ended 30 June 2018

## a. Securitised loans retained on the balance sheet - Repurchase Obligation REPO Trust

The values of securitised loans which are not qualifying for derecognition as the conditions do not meet the criteria in the accounting standards are set out below. In each case the loans are primarily variable interest rate loans, hence the book value of the loans transferred equates to the fair value of those loans.

The associated liabilities are equivalent to the book value of the loans reported.

The REPO trust is a trust established by the Bank to facilitate the liquidity requirements under the prudential standards. The trust has an independent trustee. In the case of the REPO Trust the Bank receives a Warrant certificate to sell to the Reserve Bank should the liquidity needs not be satisfied by normal operational liquidity. The Warrant is secured over residential mortgage-backed securities (RMBS).

The Bank has financed the loans and received the net gains or losses from the trust after trustee expenses. The Bank has an obligation to manage the portfolio of the loans in the trust and to maintain the pool of eligible secured loans at the value equivalent to the value of the Warrants received. The Bank retains the credit risk of losses arising from loan default or security decline, and the interest rate risk from movements in market interest rates.

If a portion of the value of the portfolio in the Repo trust fails to meet the trust's criteria, the Bank is obliged to repurchase those loans and substitute equivalent qualifying loans into the trust.

	2018	2017
	\$	\$
Loans and Receivables	274,806,698	116,493,252
Fair Value of associated liabilities	19,175,867	7,573,534
	2018	2017
	\$	\$
Off Balance Sheet Financial Commitments	17,137,702	10,907,391
Pool Uplift	192,191,348	-

## b. Securitised loans not on the balance sheet - Derecognised in their entirety

The Integris securitisation trust is an independent securitisation vehicle established by the peak Bank body, Cuscal.

The Bank has an arrangement with Integris Securitisation Services Pty Limited whereby it acts as an agent to promote and complete loans on their behalf, for on sale to an investment trust. The Bank also manages the loans portfolio on behalf of the trust. The Bank bears no risk exposure in respect of these loans. The Bank receives a management fee to recover the costs of administration of the processing of the loan repayments and the issue of statements to the members.

These loans qualify for derecognition on the basis that the assignment transfers all the risks and rewards to Integris and there is no residual benefits to the Bank. The Bank receives a management fee to recover the costs of on-going administration of the processing of the loan repayments and the issue of statements to the Members.

The Bank does not have any obligations in connection with performance or impairment guarantees, or call options to repurchase the loans.

	2018	2017
	\$	\$
Integris securitisation trust (bulk items only)	618,479	910,729
Net income received from the continuing involvement cumulatively	7,760	10,626

## Notes to the accounts

For the year ended 30 June 2018

### 38. Notes to Cash Flow Statement Liabilities

#### a. Reconciliation of Cash

Cash includes cash on hand and deposits at call net of overdraft.

	CONSOLIDATED		POLICE BANK	
	2018	2017	2018	2017
	\$	\$	\$	\$
<b>Cash as at balance date comprises:</b>				
Cash on Hand	15,198,187	7,451,459	14,714,704	6,992,559
Deposits at Call	24,005,615	38,018,269	24,005,614	38,018,269
Less: Overdraft with Cuscal	-	-	-	-
<b>Total</b>	<b>39,203,802</b>	<b>45,469,728</b>	<b>38,720,318</b>	<b>45,010,828</b>

b. Member deposits and shares are shown net of deposits and withdrawals.

c. The net cash from Operating Activities is reconciled to the Operating Profit and Extraordinary Item after Income Tax.

	CONSOLIDATED		POLICE BANK	
	2018	2017	2018	2017
	\$	\$	\$	\$
<b>Operating Profit after Income Tax</b>	<b>8,438,683</b>	<b>8,292,249</b>	<b>8,973,644</b>	<b>8,523,398</b>
Add (Deduct):				
Bad Debts Written Off	613,205	380,605	613,205	380,605
Depreciation Expense	2,268,900	2,476,933	1,525,523	2,042,076
(Decrease) in Provision for Employee Entitlements	(137,958)	(30,430)	(65,165)	(201,413)
(Decrease)/Increase Accrued Expenses	(1,185,116)	1,046,620	(1,280,469)	1,134,812
Gain on Sale of Assets	81,876	12,332	71,091	12,332
Increase /(Decrease) in Prepayments	34,468	(302,979)	34,468	(302,979)
(Decrease)/Increase in Unearned Income	(52,726)	328,619	(52,726)	328,619
Amortised Loan Transaction Costs	9,893	13,280	9,893	13,280
Decrease in Sundry Debtors	87,707	134,040	80,209	162,255
(Increase) /Decrease in Deferred Taxes Payable	(172,313)	6,483	(172,313)	6,483
(Decrease)/Increase Provisions for Income Tax	(66,082)	467,000	(63,706)	474,506
Other Provisions	411,008	449,097	411,008	449,097
<b>Net Cash from Revenue Activities</b>	<b>10,331,545</b>	<b>13,273,849</b>	<b>10,084,662</b>	<b>13,023,071</b>



# Notes to the accounts

For the year ended 30 June 2018

## 39. Business Combination

The Heritage Isle Credit Union Ltd (HICU) transferred its assets and liabilities to Police Bank as at the 1st May 2018 pursuant to a merger approved by APRA under the financial sector Transfer of Business Act 1999.

The transfer consolidated the mutual interests and business goals of HICU and Police Bank.

The transfer of the business did not generate goodwill.

The shares held by members of HICU were effectively cancelled at this time, and these members were automatically deemed guarantee members of Police Bank. As a result any paid up share amounts, made by the former HICU members, were required to be reimbursed. The reimbursement will take place during FY19.

Other prescribed disclosures are as follows:

- There are not contingent considerations or indemnification assets.
- The amounts recognised as of the acquisition dates for each major class of assets acquired and liabilities assumed, are as follows:

	2018		
	Gross Contractual Amounts Receivable	Provision for Impairment	Net Amounts Received
	\$	\$	\$
<b>Assets:</b>			
Cash and Liquid Assets	4,384,738		4,384,738
Accrued Receivables	342,638		342,638
Investment Securities	17,196,503		17,196,503
Loans and Advances	80,996,099	(73,148)	80,922,951
Property Plant and Equipment	1,552,975		1,552,975
Other investments	168,969		168,969
Intangible assets	61,828		61,828
Taxation Assets	235,459		235,459
<b>Total Assets</b>	<b>104,939,209</b>	<b>(73,148)</b>	<b>104,866,061</b>
<b>Liabilities:</b>			
Deposits and Borrowings	95,043,332		95,043,332
Creditors and other Liabilities	1,445,362		1,445,362
Taxation Liabilities	179,501		179,501
<b>Total Liabilities</b>	<b>96,668,195</b>		<b>96,668,195</b>
<b>Net Assets</b>	<b>8,271,014</b>	<b>(73,148)</b>	<b>8,197,866</b>

- Contingent liabilities – there are no contingent liabilities.
- Cost of the acquisition expenses comprised:

Description	\$
Professional due diligence and legal costs	267,032
<b>Total Direct Costs</b>	<b>267,032</b>

These costs were incurred in the 2018 financial year and form part of the Other Administration Expenses of the Police Bank.

- There are no costs of the acquisition incurred but not expensed.

## Notes to the accounts

For the year ended 30 June 2018

### 40. Outsourcing Arrangements

The Bank has arrangements with other organisations to facilitate the supply of services to members.

#### a. CUSCAL Limited

CUSCAL is an Approved Deposit Taking Institution registered under the Corporations Act 2001 and the Mutual Banking Act. The Bank has equity in the company. This organisation:

- (i) provides the license rights to Visa Card in Australia and settlement for ATM, Visa card and cheque transactions, direct entry transactions, as well as the production of Visa and Redicards for use by Members;
- (ii) this company operates the computer network used to link Redicards and Visa cards operated through Reditellers and other approved ATM providers to the Mutual Bank's EDP Systems
- (iii) provides various banking services for Police Bank, including digital wallets, NPP, back office processes and cash delivery services.

The valuation of the Cuscal shares is based on the net assets backing as at the most recent financial report to recognise the company is not readily marketable, except within the current ADI membership of Cuscal. Refer Note 12a for details on the fair value assessment.

#### b. Ultradata Australia Pty Limited

Provides and maintains the application software utilised by the Bank.

#### c. Fuji - Xerox

Provides Member Statements and printing services utilised by the Bank.

### Compliance Statistics

#### a. Capital Adequacy

At all times the Bank must maintain a minimum of 8% capital adequacy ratio. The capital adequacy ratio is a measure of reserves, general provisions for doubtful debts less an amount equal to the future income tax benefit as a percentage of the risk weighted value of assets. The Bank's ratio as at balance date was 19.40% (2017 18.65%).

#### b. Liquidity

The Bank is required to maintain at all times liquid assets at a minimum level of 9% of its liability base in High Quality Liquid Assets. These percentages were exceeded for the whole year. In addition to liquid assets the Bank has in place confirmed standby lines available to it. The High Quality Liquid Asset Ratio as at balance date was 13.34% (2017 15.10%).



# Contact Us

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## **Police Bank Head Office**

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## **Member Enquiries**

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Auditors: Grant Thornton Audit Pty Ltd

**[www.policebank.com.au](http://www.policebank.com.au) | [www.customsbank.com.au](http://www.customsbank.com.au)**

**[www.heritageisle.com.au](http://www.heritageisle.com.au)**